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The London Stock
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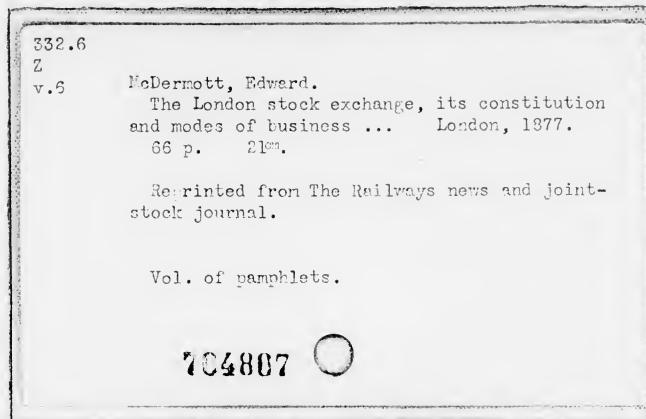
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THE

LONDON STOCK EXCHANGE:

ITS

CONSTITUTION AND MODES OF BUSINESS.

BY

EDWARD McDERMOTT, F.S.S.

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ALSO,

REPORT OF DEBATE IN THE HOUSE OF COMMONS ON THE
20TH MARCH—A MOTION OF MR. REGINALD YORKE FOR
APPOINTMENT OF A ROYAL COMMISSION OF INQUIRY
INTO THE LONDON STOCK EXCHANGE.

PUBLISHED AT THE OFFICE OF
"THE RAILWAY NEWS AND JOINT-STOCK JOURNAL,"
3, WHITEFRIARS STREET, LONDON, E.C.

1877.

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THE LONDON STOCK EXCHANGE;
ITS CONSTITUTION, FUNCTIONS, AND MODES OF BUSINESS.

In consequence of numerous inquiries which have been made for the numbers of the RAILWAY NEWS containing the articles which have recently appeared on the Stock Exchange, several of which are now out of print, it has been decided to reproduce the whole of the articles in the form in which they are now presented.

The report of the debate in the House of Commons on the motion of Mr. REGINALD YORKE for the appointment of a Royal Commission of inquiry is also given as an appendix. This record of the opinions expressed by the various speakers in the course of this debate, will be found useful to members of the Stock Exchange and other persons interested in the proposed official inquiry.

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THE LONDON STOCK EXCHANGE.

ITS CONSTITUTION.

No. I.

THE articles which have recently appeared in the pages of this journal have contained some sketches of the history of the Stock Exchange, intended rather as outlines than as finished pictures of a few of the leading events connected with the origin and progress of that Institution. These contributions to the monetary history of the last century—which may hereafter be expanded into a more complete work—have shown that the Association which now occupies so large a share of public attention is unique in its character, and possesses in its constitution and modes of transacting business many features of remarkable interest. [The Stock Exchange as a body does not exist by virtue of any Charter of Incorporation or Act of Parliament. Except, indeed, by inference to be drawn from the provisions of one or two Acts of the Legislature, its existence is not, so far as we are aware, even recognised in any of the thousands of enactments which fill the Statute Books of the country. With few exceptions all other markets or fairs for the sale of commodities and wares owe their existence to Charters or Local Acts of Parliament, and are brought by the terms of their provisions under the direct action of law. The Stock Exchange has grown up with the wants and the varying conditions of the times, and—to compare great things with small—like the British Constitution, has constantly adapted itself by its rules and regulations, to the growing demands and necessities of the extending and ever-varying nature of its transactions. It is governed by its own laws and regulations, and is complete, self-contained, and independent in its action; but, in common with every other institution or association of persons formed for a common object, its members, and its acts are necessarily subject to the general laws of the country, interpreted and

declared by the ordinary legal tribunals of the land. The Stock Exchange has no written history, although it has played a most important part in all the great events connected with the history of the country. Its power is unrecognised, although its influence is felt more widely perhaps than any other institution in the world; and its movements are watched with intense interest at home and abroad. It might have put forward a claim to be represented at the late Conference on Eastern affairs as a seventh great Power, for its movements, as expressed in the fluctuations of prices, represent with unerring accuracy the force and duration of public opinion. The figures telling of the rise or fall in the prices of home and foreign stocks have a weight in the councils of nations equal to that of the ablest State paper or the decisions of the wisest statesmen, or the most versatile of politicians.

The particular kind of business transacted and the things dealt in by the Stock Exchange differ from those of any other Market. In almost every other place where dealings are arranged, or bargains concluded, one or more of the five senses are brought into requisition in aid of the purchase or sale. The matters and things dealt in on the Stock Exchange are not amenable to, nor can they be tested or appraised by, any of those means which experience brings to bear in the dealings of other branches of business. The things really dealt in are intangible, unseen, and, in many cases, unhappily, they are deceptive and fictitious. There is no mode, or rule, or standard by which to judge of the merits of the things dealt in. They consist of what has been forcibly described by Kinglake, in his "History of the Crimean War," as "fractional and volatile interests in trading adventures, which go by the name of Shares." The purchaser of a million of Consols receives only a small piece of paper called a "stock receipt," less than half the size of the page upon which the reader is now looking; the buyer of a single Share in some worthless "wild cat" mine in the Western States of America has much to show for his money invested—with this difference, perhaps, that the piece of paper in the latter case is elaborately printed, and is an excellent specimen of the art of engraving on steel or copper plates; while the title to the Consols is a plain, unadorned, and antique letter press. No person has ever seen or handled a "Consol;" not one person in a hundred—perhaps in a thousand—could describe accurately what it really is. Yet these unseen mythical things are regarded as

the safest and soundest property in the world, and the price is the never-failing barometer of the condition, the sentiment, and the opinion of the nation. Corn, cotton, coffee, sugar, horses, and live stock are bought and sold by the test of one or other of the external senses, and their value determined by real or assumed standards of merit. The value, or rather the price, of Consols is one of the things which, largely dealt in on the Stock Exchange, is variable as the winds, and as subject to changes as the waves of the sea.

Take, again, the case of our railways. £100 stock of the London and North-Western Railway—what is it? It represents no visible or distinct portion of the railway or of its rolling-stock, or property of any kind. The right to possess £100 of stock consists in the fact of having the buyer's name inscribed in the register of the Company in the place of him who sold it. What is bought for, say £150, is a small piece of paper called a "coupon,"⁷ which tells that he whose name it bears is the owner of to the extent of £100 in the capital already expended on that railway. [The value or price of his stock fluctuates from causes wholly foreign to, and independent of, the money actually invested. The prospect of war in China or in Turkey; a change of Ministers at home; "the threatening attitude of foreign Powers;" a good or a bad harvest; a famine in India; a civil war on the other side of the Atlantic; a thousand circumstances wholly unconnected with the railway on which the capital has been expected, may raise or depress the market price of this stock. The same remark as to this intangible and varying character applies to the bonds of the many foreign loans; and also to investments in joint-stock enterprise, promoted in many instances by fraud, administered with dishonesty, or conducted by incompetence, and which have entailed so much loss and suffering upon credulous, sanguine, and sometimes, too, avaricious and greedy investors.] In all these matters and things, which form the staple of dealings on the Stock Exchange, buyer and seller act by faith rather than by sight, and are guided by the mental and intellectual faculties rather than by the organs of sense, which are relied upon in the every-day transactions of ordinary and commercial business.

The extent of the transactions of the Stock Exchange is not less remarkable than the nature and variety of the securities in which dealings take place. A short time since a letter appeared in the *Times* from Mr. Cohen, one of the

most respected members of the Stock Exchange, in which it is stated that in one fortnight the amount of dealings on the London Stock Exchange had been £300,000,000. It is difficult to decide which is most calculated to arrest attention—the amount of business or the varied nature of the stocks or shares which made up this enormous aggregate of transactions. It included bonds of foreign countries, solvent and insolvent—some paying their dividends, others repudiating their contracts. They were of every shade and hue of colour, in almost every written language, some bearing the florid signature of the Imperial cypher of Turkey, or Egypt; others in the barbaric-looking characters of Russia, the easy flow of the French, the complex character of the German, Spanish, Portuguese, Dutch—all were there, unintelligible, in the body of the bonds, alike to dealer and broker, buyer and seller, yet all readily received and passed from hand to hand with as much confidence as though they were the familiar five-pound note of the Bank of England. With some very trifling exceptions the whole of this amount of business was transacted without a single coin of the realm or its equivalent in paper having changed hands—the bonds being given up in exchange for cheques on the bankers, taken in payment as a rule with unhesitating confidence. In the settlement of this huge account there was no time or opportunity to test the genuineness of the document bought or sold. They might have been the work of a skilful forger; they might have been wrongfully and illegally issued; they might have been stolen—no matter, they are bought and sold and paid for, in reliance upon the good faith of the general body of the members, and of that mutual confidence without which it would be absolutely impossible for the Stock Exchange to exist as a body for the purpose for which it has been established.

As in the case of the most admirably constructed piece of mechanism, it is necessary that every part and movement should be subordinated to the whole and act with perfect precision, in order to ensure successful results, so in the case of the Stock Exchange it has become essentially necessary that all members of the body should work in unison and harmony, in order to attain and secure the confidence of the public. Changes and modifications, called for by the increased complexity of the business transacted, may be necessary in order to enable that association to maintain unchallenged and untarnished the reputation which it has

won for itself in the past, by the character of its dealings with the public, and the satisfactory administration of its own internal affairs. It will be necessary, however, to ascertain with accuracy the mode and manner in which the business of the Stock Exchange is now conducted, before attempting to deal with any of the many adverse criticisms which have been indulged in, and the reforms which have been suggested in its management.

“THE DEALERS.”

No. II.

THE London Stock Exchange consists of about 2,000 members. Of these somewhat less than one half—or, to be more precise and adopt well-known fractions, three-eighths—are dealers, or, as they are sometimes termed, “jobbers;” and five-eighths are “brokers,” or persons who act as intermediaries between the dealers and the public. The dealers constitute the market, the brokers are the customers who deal with them. Both classes are, however, members of the Stock Exchange, and, so far as that body is concerned, possess the exclusive right of dealing in the stocks and shares quoted or recognized by them. There is no mart, or market, or exchange in the world where the nominal values of the articles in which dealings take place make up such enormous aggregates. The things dealt in represent a large portion of the accumulated wealth and surplus capital of the civilised world. The money paid for the charter of the Bank of England, the first contribution to our National Debt in the time of William and Mary, and the many millions spent in Continental and other wars; the capital raised by the adventurers and traders to those Indies which have now grown into such importance as to give the title of Empress to the Queen of England; the original capital of the Hudson Bay Traders, raised under the charter of Charles the Second, and since extensively “watered” by skilful financiers, by means of the facilities afforded by the Limited Liability Acts—are represented equally with the latest additions made to the capital stock of a railway company, the last issue of a foreign or colonial loan, or the latest venture of a trading enterprise.

〔The total value of the property dealt in is such as to challenge all the powers of the intellect to grasp, or realise its extent. It has been roughly estimated at £6,800,000,000. These figures can only be treated as astronomical quantities, and something like the plan adopted of telling how many years it would take for a cannon ball or a ray of light to traverse the vast regions of space which divide other worlds from this can enable the reader to appreciate the sums which form the capitals in which dealings take place on the London Stock Exchange. The sun, for instance, is 95,000,000 of miles from the earth; but these figures, represented in pounds sterling, are less than a seventieth part of the grand total of home, foreign, and colonial enterprises which form the total of the business in the small building in the city known as the Stock Exchange. Of course no one dealer professes to buy or sell in every class of these securities. Each dealer, as a rule, whether by the law of natural selection or some other form of development of the proper fitness of things, confines his attention to some particular class of securities.

The business, as a rule, is divided into separate markets, such as—English funds, foreign stocks or bonds, banks, English railway stocks—subdivided into what are known as the “heavies”—Midland and North Western, &c.—and those which by distinction may be termed “light,” represented as a rule by stocks quoted below par—railway debentures, railway preference stocks, Indian railways, Indian and Colonial Government securities, American securities, Canadian railways, mining, telegraph, gas and water companies, and all companies included under that large and comprehensive head of “Miscellaneous.”

We learn from Fenn's work “On the Funds” that these securities represent a nominal value of:—

British Debt	£784,000,000
Foreign Loans	3,630,000,000
British Railways	600,000,000
American and Foreign Railways	1,000,000,000
Colonial Governments	188,000,000
Indian and Canadian Railways	125,000,000
Corporation and Local Debts	63,000,000
Banks	100,000,000
Gas and Water Companies	60,000,000
Miscellaneous	250,000,000
<hr/>	
Total	£6,800,000,000

〔It is the distinguishing feature of the London Stock Exchange as compared with continental bourses or provincial exchanges, that it is always an open market. At any time during the ordinary hours of business stocks or shares may be bought and sold, more or less freely. The dealers in the House are prepared to make a price at which they will either buy of, or sell to, the brokers with whom they transact business. The difference between the two prices given varies according to circumstances and the nature of the stocks dealt in. In times of great excitement and panic, when all are sellers and none are buyers, the dealer widens the limit of the price, and reduces the amount in which he is prepared to deal. Stocks and shares which are more readily marketable than others, and for which there is, in ordinary times, an active demand, have a narrower range than those in which the dealings are few in number and more limited in amount. Speaking generally, Consols are, as a rule, quoted at $\frac{1}{2}$, and railway stocks at $\frac{1}{4}$ margin. Thus, the dealer is prepared to buy Consols at $95\frac{1}{2}$, or sell at $95\frac{1}{4}$, and deal in London and North Western stock at $149\frac{3}{4}$ or 150 . It is scarcely necessary to say that in buying he does so only with the view of selling again at a profit, or if he sells—should he not have the stock at the time—he does so with the expectation that he will be able to buy at a lower price than that at which he has sold. He stands prepared, however, in either case to complete the transaction, either by delivering the stock he has sold, or paying for that which he has purchased, when called upon to do so, according to the terms of the bargain, and the rules and regulations of the Stock Exchange. In critical times of business, “the dealer's” position is by no means an enviable one. Very peculiar qualities of mind are essential to constitute a successful dealer in the Stock Exchange. He must have nerves which will not quail as he glances over his list of bargains or sums up the huge liabilities which he may have taken upon himself. He must be keen in noticing and prompt in availing himself of any indications that may tell of the favourable or unfavourable turn of the market. If, after having bought a large quantity of stocks or shares, he finds that there are still other sellers in the market, that the supply is in excess of the demand, and that prices are falling away, or when, having sold what he has not on hand to deliver, sees that the demand for the stock is increasing, and that the public are purchasing, he must quickly take advantage of the altered state of things, and buy or sell so as to make his “book even,”

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It is the distinguishing feature of the London Stock Exchange as compared with continental bourses or provincial exchanges, that it is always an open market. At any time during the ordinary hours of business stocks or shares may be bought and sold, more or less freely. The dealers in the House are prepared to make a price at which they will either buy of, or sell to, the brokers with whom they transact business. The difference between the two prices given varies according to circumstances and the nature of the stocks dealt in. In times of great excitement and panic, when all are sellers and none are buyers, the dealer widens the limit of the price, and reduces the amount in which he is prepared to deal. Stocks and shares which are more readily marketable than others, and for which there is, in ordinary times, an active demand, have a narrower range than those in which the dealings are few in number and more limited in amount. Speaking generally, Consols are, as a rule, quoted at $\frac{1}{2}$, and railway stocks at $\frac{1}{4}$ margin. Thus, the dealer is prepared to buy Consols at $95\frac{1}{2}$, or sell at $95\frac{5}{8}$, and deal in London and North Western stock at $149\frac{3}{4}$ or 150. It is scarcely necessary to say that in buying he does so only with the view of selling again at a profit, or if he sells—should he not have the stock at the time—he does so with the expectation that he will be able to buy at a lower price than that at which he has sold. He stands prepared, however, in either case to complete the transaction, either by delivering the stock he has sold, or paying for that which he has purchased, when called upon to do so, according to the terms of the bargain, and the rules and regulations of the Stock Exchange. In critical times of business, “the dealer's” position is by no means an enviable one. Very peculiar qualities of mind are essential to constitute a successful dealer in the Stock Exchange. He must have nerves which will not quail as he glances over his list of bargains or sums up the huge liabilities which he may have taken upon himself. He must be keen in noticing and prompt in availing himself of any indications that may tell of the favourable or unfavourable turn of the market. If, after having bought a large quantity of stocks or shares, he finds that there are still other sellers in the market, that the supply is in excess of the demand, and that prices are falling away, or when, having sold what he has not on hand to deliver, sees that the demand for the stock is increasing, and that the public are purchasing, he must quickly take advantage of the altered state of things, and buy or sell so as to make his “book even,”

and secure for himself the fractional profit on his dealings. Failing to do this—as is very frequently the case—the dealer must be content to secure himself against serious loss by buying or selling the particular stock required to cover his transactions. It is scarcely necessary to say that something more than an intuitive instinct of telling the state of the market is necessary for “the dealer.” This quality, useful though it may be, would avail but little when the time came that the bargain had to be completed and the money provided for that purpose. In other words, large capital, or, what is very often equivalent to it, first-class credit, is essentially necessary for the successful conduct of the business of a dealer on the Stock Exchange.

For the protection of members, as well as in the interests of the public, the rules of the Stock Exchange require that no member shall be admitted who cannot satisfy the Committee as to his standing in respect of character and credit. Every applicant for admission to the House must be recommended by three members of not less than four years' standing who have fulfilled all their engagements, and each of them must engage to pay £750 to the creditors of the applicant in case he should be declared a defaulter within two years from the date of his admission. The Committee may take what are supposed to be efficient means to satisfy themselves as to the character and credit of the applicant. Among other questions which they may put, and which those who recommend an applicant must answer, are these:—

“Has the applicant ever been a bankrupt, or has he ever compounded with his creditors? and, if so, within what time, and what amount of dividend has been paid?”

“Would you take his cheque for £3,000 in the ordinary way of business?”

“Do you consider he may be safely dealt with in securities for the account?”

The experience of the Stock Exchange in recent times has shown that even with these safeguards members have been admitted whose cheques for £3,000, if payable out of their own balances, would have been but a sorry substitute for that amount of cash. When the hour of trial comes too many of the weaker brethren succumb, and leave to their sureties, when not indemnified, the discharge of that disagreeable duty which, as sponsors, they had so kindly but so rashly undertaken in the name and on behalf of their friends. “Black Friday” in 1866 furnished a very lamentable list of casualties on the

settling day which followed. On the outbreak of the Franco-German war not less than seventy of the dealers fell, and the never-ending Eastern Question has claimed nearly as many victims in the course of its varied phases.

The mode in which business is transacted in the Stock Exchange necessarily places the “dealer” to a great extent at the mercy of his customers. All that striving and straining after early news; that intense desire to have the first information of what may be regarded as an important event; all the cleverly-arranged codes and ciphers of the telegraph; all the stratagems to which resort is had for the purpose of obtaining exclusive intelligence; the eagerness with which latest editions of the daily papers are looked for; and the impatience with which the telegram is awaited at the club or the news-room—are devised and practised with the view of taking advantage of the dealer on the Stock Exchange. In the days of Waterloo the news of the victory was first obtained by a wealthy financial house in the City, and before the dealers had any intimation of the result of the battle they were committed to transactions in several millions of Consols. A short time since a serious accident occurred on an English railway, and one of the passengers, hurrying away from the ghastly wreck and the scenes of horror and suffering among those who had a moment before been his fellow-passengers, reached the nearest station and telegraphed to his broker to sell £20,000 of the stock of this particular railway, judging very shrewdly that when the news of the catastrophe was published the next day, he would be able to buy the stock at a lower price than that at which he had sold it to those who were wholly ignorant of the sad event. The “dealer” takes the risk of all this. He knows that all the world is leagued against him; but with his “eighth to three-eighths” he can hold his own in the apparently unequal conflict. Decisions upon which the peace of the world have hung may be given by Governments which have been long negotiating; the King of Prussia may turn his back upon Benedetti, the French Minister, and the Franco-German war commence; unprincipled foreign Governments may repudiate their engagements; the dividends of railway companies may be better or worse than was anticipated; some swindling agent of a mine in the Western States of America may report enormous discoveries of gold, or of land sown with diamonds and rubies; another, that some flood has suddenly destroyed the favourable prospects of mining adventure.

The earliest news of these events is sought and obtained by those outside the House who wish to make good use of it—in other words, to buy or sell to those who it is hoped have not yet become acquainted with the facts. In no place in the world are so many "shaves" and reports circulated, and for the time recklessly adopted, as in the Stock Exchange. Nowhere, perhaps, are calculations and estimates of so little value as aids in the transaction of business. The "dealer" or "jobber" stands, as it is familiarly termed, to be "shot at." The experienced dealer—always provided, however, that he has the necessary capital or credit at his command—soon becomes inured to his position as a living target. The doctrine of averages, or chances, are in his favour, as well as against him. If the unforeseen always happens, it happens sometimes for good as well as for evil. The "whirligig of time" revolves for him as for others, and in due course patience is rewarded. "All things come to him who waits," is an old proverb, which in his daily experience is proved by the dealer on the Stock Exchange. It is a lesson somewhat hard to learn, and many an unpleasant "quarter of an hour" is passed before the mind and nerve are brought into a position thoroughly to appreciate the lesson and estimate its practical value. This period of waiting, this risk of loss upon the transaction, is accurately measured by the fractional difference between the buying and selling prices which the dealer makes. That is, in fact, his insurance against risk and loss. Combinations may be made, syndicates and cliques may be formed to raise or depress the price of any particular stock or shares, of which the "dealer" knows nothing until he has been committed, without any immediate prospect of escape from loss in the bargains. He, however, patiently bides his time;—the syndicate will one day be broken up. The men who have bought of him a hundred thousand stock must one day sell it; or those who have "saddled" him with it must buy it back. Every speculative transaction must be twofold in its character. Buy first and sell afterwards; or sell first and buy afterwards, is a law which applies not less to the Stock Exchange than to every other branch of business in which profit and loss enter as an element in the transaction. When at last the day of final settlement comes the dealer will be careful to make his market accordingly, if he has not already taken advantage of the many fluctuations which are constantly occurring to "job" in and out of his stock, and gradually bring about a balance of his transactions.

Dealing of this kind is the result of those speculative operations which have grown up year by year until they have developed into a systematic business, outside of, and extraneous to, what may be regarded as the ordinary and recognized work of the Stock Exchange. Speculation is a species of fungus which adheres to the body of legitimate business. It has its origin in the eager desire of those who "make haste to be rich," and of whom it has been said, they "fall into many snares." The dealer in the House has no opportunities of knowing until too late whether the buying or selling to which he has been made a party is for purposes of speculation, or for actual investment. At the periodical days of settlement he is able to form a pretty shrewd estimate of the nature of the transaction to which he has been a party, and the unlucky speculator who, led by ill-advice or tempted by visions of large profits, has gone beyond his means, soon learns by bitter experience the folly of "making believe" in the buying of stock or shares which he has not the means of paying for, or selling what he is not able to deliver. All the little plots and contrivances by which it was hoped to deceive the "dealer" recoil upon the head of the luckless speculator. The "rouge" is "noir," the "noir" is "rouge," and, baffled, disappointed, and fortunate if not ruined, he retires from the unequal contest, and indignantly denounces as gambling the means by which he hoped to win a fortune for himself at the expense of his partners in the game in which, voluntarily and of his own free will, he had become a party.

"THE BROKERS."

No. III.

It has always been regarded as a matter of importance that the functions of "broker" and "dealer" on the Stock Exchange should be perfectly distinct. It is obvious that abuses of a very serious kind must arise when this salutary rule is departed from. The broker, who acts simply as an agent, is forbidden by the very terms of his occupation from dealing on his own account in the matters and things which form the subject of his daily transactions. His duty is to deal *for* and not *with* his principal. It is expected that, in acting as agent, he will always act upon the sound principle

o' "buying in the cheapest and selling in the dearest market." The confidence which is reposed in him would be justly forfeited by any departure from the clearly-defined principles which are implied and generally understood in the relations between the broker and his principal. The duties o' brokers are very clearly defined in the oath which they were formerly required to take when admitted by the Court o' Aldermen to act as brokers within the city of London. The regulations then required—

"That every person shall, upon his admission, take an oath truly and faithfully to execute the office of broker between party and party in all things pertaining to the duty of the said office, without fraud or collusion, to the best and utmost of his skill and knowledge; that he shall in all cases reveal the name of his principal, and neither deal in goods on his own account, nor barter and sell again, nor make any gain in goods beyond the usual brokerage."

The principles embodied in this regulation applies equally to stock and share brokers as well as to those engaged in ship insurance, bill, or Custom-house business. The Court of Aldermen, in the exercise of its ancient privileges, still claim the right to appoint and licence all persons acting as brokers within the city of London. An annual fee of £5 is paid for this privilege, and the revenue from this source yields a very handsome sum to the Corporation. Up to a very recent period the members of the Jewish persuasion were treated somewhat harshly in this respect by the Mayor and Court of Aldermen. Only twelve of their number were permitted to act as brokers. The silver medal which he in common with the other brokers then received was transferable, and has been sold at prices ranging from £800 to £1,500. Upon the decease of any Jewish holder of a medal which had not been transferred, the appointment fell to the Lord Mayor for the time being, who received not unfrequently as much as £1,500 for the nomination and appointment to the vacant office. These exclusive privileges have now ceased. It is no longer required that an applicant for a license as a broker should be a citizen or "freeman" of the city of London, or should produce eight good citizens to vouch for his respectability. Any person who is in a position to pay £5 to the Chamberlain of the City of London may obtain a licence to act as broker within the City of London, though it does not give him the necessary qualification to act as broker in the Stock Exchange, and may continue to act in that capacity so long as he makes the annual payments. This comparative "free-

dom of trade" within the City has drawn to the Stock Exchange, as to many other trades where "brokerage" is applicable, a large number of persons, of some of whom it may safely be assumed that it would be well if their attention and activity had been directed to other pursuits.

The dealers or "jobbers" in the House are not allowed to act as brokers; but the line of demarcation which has been laid down as between dealer and broker is in some instances violated by the brokers. We hear of one or two well-known firms of brokers who "deal" largely in some descriptions of American Railway securities. So long as this is clearly and distinctly understood by the client who wishes to purchase the particular stock which his broker has to sell, the transaction might not be a mischievous one; but it is a practice liable to considerable abuse. Some few years since one of our judges laid it down, as a matter of law, that "a broker ought never to buy or sell on his own account, and that he could only purchase for himself through the agency of another broker." The law regards with extreme jealousy the relations of broker and client, as is shown in the form of oath formerly required to be taken on his admission by the broker. Of course, in any purchase or sale made directly to his principal the broker is not entitled to charge any commission; and any infraction of this rule would render him liable, not only to expulsion from the Stock Exchange, but to heavy penalties enforced against him by the Corporation of London. In any case in which a purchaser has reason to believe that his broker has acted in this illegal manner, or should refuse to give up the name of the dealer with whom the bargain has been made, he should at once, in the interest of the Stock Exchange itself, as well as for the protection of the public, communicate with the Committee of the Stock Exchange on the subject, and ask to have the matter investigated.

The stocks and shares in which the broker may be called upon to deal are numerous and varied in their character. The daily official list of prices includes the names of about 1,350 different kinds of securities. The British Funds and Indian Government Securities are 32 in number; Colonial Government Securities, 59. There are not less than 152 issues of foreign stocks; English railway ordinary shares number 61. There are 133 preference stocks of English railways; leased lines are 41 in number; debentures, 46; colonial railways, 56; Indian railway debentures, 18; foreign railways, 51; American railways, 89; foreign railway obligations, 52; banks, 75; British mines, 28; colonial and foreign mines,

43; telegraphs, 32; insurance companies, 55; gas companies, 53; docks, waterworks, and canals, 30; bond, loan, and trust companies, 58; miscellaneous, including coal, copper, iron, commercial, financial and industrial, land, shipping, tea, tramways, and other companies, are represented by a total of eighty-one companies. [The broker is often expected to be able to advise and give his opinion as to the merits of each of these securities. He must not only know their actual but their relative merits and position to each other. He is expected to be able to give an answer as to the resources of every foreign Government whose stock is quoted, and to know the intentions of each Government as to the payment of the next coupon, and the probability of their punctual payment thereafter. He must balance in his own mind, and convey clearly to the comprehension of his client, the points which induce him to think one stock better than another. If his client wishes to invest in a railway stock, he expects to be informed of the capital already raised, the amount to be expended in the future, the gross and net revenues, the dividends for years gone by, and the prospects of the future. In regard to mines, he must be able to tell the latest information of a "cross cut" of a lode, the number of fathoms sunk, the capital raised, the percentage of the dues. To satisfy the requirements of his clients he must be an animated cyclopaedia, with every page posted up with the latest information, whether supplied in carefully prepared official reports, or flashed by the telegraph as the latest piece of news from all parts of the world. It is in vain that the really conscientious broker protests that he is not infallible. The investor wishes to find a safe security in which to deposit his money, and at the same time one that will pay large and improving dividends; and not only does he require this advice and information from his broker, but he expects to be informed when the proper time to buy or sell. Those of his clients who are of the speculative class wish to know the condition of the market, the state of the account in which direction it is tending—whether towards a fall or a rise. In the old time, when there were comparatively few securities in which to deal, the broker—cautious, prudent man—laid it down as a rule, from which he rarely departed, that he, while prepared to act to the best of his ability for his clients, declined to give advice. Consols and a few favourite foreign stocks, East India stock, or such like solid investments, offered themselves as securities, and in any of these he was always

ready and willing to invest his clients' money. It was not necessary for the broker in those days to trouble himself to ascertain facts or make himself acquainted with the ever-varying elements which entered into the calculation of the value of any particular stock. Now, however, serious work of this kind has to be undertaken. It is impossible for the broker to carry in his head all the particulars respecting the large mass of stocks in which he may have to deal. He can call, however, to his aid most complete and reliable books of reference, and carefully-compiled tables of statistics upon every form and variety of security. "Slaughter's Railway Intelligencer" is a work remarkable for the completeness and accuracy of its information in regard to railways; Ingall's "Handy-Book on Foreign Loans;" Fenn on the Funds; Skinner's "Stock Exchange Manual;" the monthly issue of the "Investor's Manual" by our contemporary, the *Economist*; the daily and weekly official lists of Mr. Wetenhall; and, we may add, the analyses of the accounts of the railway companies, published in the pages of the *Railway News*—afford to the broker ready and convenient modes of obtaining information upon the matters on which he is called upon to express an opinion. It often happens, and necessarily so, that circumstances arise which were not foreseen, and the particular form of security recommended proves disappointing in its results, and the investor who but yesterday placed the most implicit confidence on the advice of his broker, finds security depreciated in value, or the speculator finds to his disgust that the stock or shares fall when they ought to rise, or rise when he had contemplated they should fall; and, smarting from loss and vexation and disappointment, he denounces stock-brokers, stockjobbers, and the Stock Exchange, as a combination of gamblers, and himself as their innocent, helpless victim.

Among the members of the Stock Exchange there are brokers and there are brokers. [It is said there are brokers whose main object is business, and whose chief desire is—commissions. It is quite possible that there is some foundation for this charge. It is fair to say, however, that in several of the instances which have been brought forward in which brokers have been charged with encouraging their clients to speculate to an extent beyond their means, the evidence has not been of a very conclusive character.] About four years since a case occurred in which a member of a noble family accused his broker of fictitious dealings for him—that he had,

in fact, set up a "dummy" principal, and that the bargains which he represented he had made had really never been entered into, and the claims for losses arose to a great extent out of these fictitious transactions. The case was fully investigated by the Committee of the Stock Exchange, and subsequently heard at the Guildhall Police-court, but the evidence wholly failed to sustain the charge. An impartial investigation into allegations of this kind would, we believe, result in showing that the blame of excessive speculation rests at least as heavily upon the principal or outsider, as upon the broker, and no complaints of the nature would certainly ever be heard if the result of the speculations had shown a profit upon the balance of the transactions.

The commission for brokerage is a much vexed question, and has given rise to great discussion among the members of the Stock Exchange themselves; and it has not unfrequently happened that the public have had occasion to complain of the charges under this head. Many of the members wish for an authorised scale of charges, from which no deviation should be made without incurring the risk of censure or penalty by the Committee of the Stock Exchange. Apart from the difficulties which would exist, in the first instance, of arriving at a mutual agreement as to such a scale of charges, and of enforcing compliance with such a scale, it is felt by another large section that the adoption of such a course would be in opposition to that unrestricted competition which enters so largely into all the transactions of trade and commerce in the present day. Any attempt to draw "a hard and fast line" would certainly fail to secure uniformity in charges. Means of evasion would very quickly be found by those among the members who regarded their personal interests of greater importance than the cultivation of an *esprit de corps* among the general body of which they are members. There are among the brokers of the Stock Exchange not a few who are known as "runners," who transact business for large firms, and who obtain business by being the first to carry news of any important event or movement in the market. These active members are as a rule not unwilling to work for a smaller commission than their more staid and easy-going brethren. They are sharp, shrewd men; they buy or sell it very close margins, and acting, as they do, with so much promptitude, they are enabled to do bargains often more favourable for their principal outside, than for the dealer in the House, who acts without the information which the

other party to the transaction possesses. The practice of "sharing" commissions with persons introducing business is another point upon which complaints are sometimes made. It appears difficult by any regulation to prevent this, even if the matter were thought to be of sufficient importance to make the attempt, and the Committee of the Stock Exchange, if well advised, will not interfere in matters which they would be powerless to control, and which must be left to regulate themselves by the action of that law of supply and demand which is recognized in every other department of trade and commerce. There is a sufficient amount of competition among the 1,200 brokers on the Stock Exchange to prevent any successful combinations against the public. The question of uniform rates of charges is one that affects the members of the House *inter se*, rather than their customers. The one point which interests the public is that any business which they may have to transact in the Stock Exchange should be done well and efficiently. The broker who shows himself anxious and earnest for business, and ready to undertake it at low rates of commission, will not be found among the most substantial members of the House; and those who possess the greatest command of capital and enjoy the largest amount of credit are those who can command the best terms with the "dealers." It would be the height of folly on the part of the principal to employ a broker because his commission was a fraction lower than his neighbours, if he is unable to do the business with which he is charged as favourably as one who stipulates for what he regards as a remunerative commission.

THE COMMITTEE FOR GENERAL PURPOSES.

No. IV.

THE resignation of the "Committee for General Purposes," and the re-election of a large majority of the old members,* have attracted considerable attention to the constitution of this—the governing body of the Stock Exchange, and the nature of the duties which they have to discharge. On this latter point some considerable misapprehension appears to

* February 6th.

exist in the mind of the general public. In order to form a correct opinion on the subject, it is necessary to have a clear and distinct understanding of what the Stock Exchange really is. It is simply a mart for the buying and selling of stocks and shares, and the business in these articles is conducted for and on behalf of the public through the medium of brokers and dealers, whose duties and functions have already been fully explained in previous articles of this series. Although buying and selling forms the occupation of the members of the Stock Exchange, the things bought and sold differ in a most important feature from the commodities forming the staple of business of other markets. The stocks and shares dealt in on the Stock Exchange are merely representative names, and are not, as in the case of corn or cattle, the actual things themselves, and cannot be bought or sold by sample. In their purchase or sale none of those corporeal senses, which experience supplies as a test of the value of other articles, are brought into requisition. A bargain to buy or sell Consols or railway stocks is complete when the shares or documents representing the specified portion of capital has been delivered by the vendor to the purchaser. It is the business o' the Stock Exchange to see that these securities are delivered in proper order to the purchaser, and after that its responsibility ceases.

It cannot be too distinctly understood that it is no part of the business of the Stock Exchange to give a guarantee or warranty of the specific value of the particular security dealt in. As a body the Stock Exchange is not responsible for statements put forward by foreign or colonial Governments with respect to the soundness of their financial position, or their ability or willingness to meet their engagements. It does not vouch for the accuracy of the promises made by promoters of public companies in the prospectuses of the undertakings they bring before the public. It makes no critical examination of reports of railway or other companies, nor inquires into the question of whether the dividends have been fairly earned, or whether the companies are solvent or insolvent. It has no machinery for instituting such inquiries as would enable it to form a correct and trustworthy opinion on the subject, and it is difficult to see how such a task or responsibility could be successfully undertaken even by the Board of Trade or any other constituted authority. These are matters in which the public must exercise their own discretion, and on which they must form their own judgment.

[The governing body consists of thirty members, and is, as above stated, called "The Committee for General Purposes." Any member having been a member of the House for not less than five years is eligible as a candidate for a seat on the Committee. The election takes place on the 20th of March for the year, commencing on the 25th of that month, and those elected remain in office for twelve months. In accordance with the deed of settlement, every member is entitled to vote, and so broad is the basis of this franchise that members are not disqualified even though they have not paid their subscriptions. The votes are taken by ballot. The duties of the Committee are legislative as well as executive. It has power to make rules and regulations, as provided for by the deed of settlement. It can admit, suspend, or expel members, and make regulations as to the mode and conditions under which business shall be conducted, and "generally for the good order and government of the members of the Stock Exchange, and may from time to time amend, alter, or repeal such rules and regulations, or any of them, and may make any new, amended, or additional rules and regulations for the purposes aforesaid." In the exercise of its executive functions it has the power to call before it all members, or their clerks, and require them to give such information as may be in their possession relative to any matter under investigation. Its powers extend even to members of the Committee itself, and it may expel any such member who may be guilty of improper conduct. The functions of the Committee also extend to the investigation of complaints by non-members against members, in such cases as may be considered fitting to their adjudication, the complaining party agreeing beforehand to be bound by the decision of the Committee, and in this branch of their duty questions and disputes, which might lead to much costly and doubtful litigation in the courts of law, are disposed of upon principles of equity and justice.]

Bearing in mind the nature of the business transacted on the Stock Exchange, our readers will at once understand that it is most essential that all contracts entered into should be inviolable in their character. It is with a view of carrying out the honourable fulfilment of bargains made not only *inter se*, but with the public, that the rules and regulations of the Stock Exchange have been framed and modified from time to time. Every rule and regulation of the institution has been framed in accordance with this fundamental principle, and

experience has fully demonstrated the value of a strict performance of contracts. Mr. Cohen stated, in a recent letter to the *Times*, that the transactions on the Stock Exchange for one fortnight exceeded 300 millions sterling, nominal value. Out of the transaction of this enormous amount of business not a single case of default arose. Yet it was all done, in the first instance, on mere verbal contracts. The broker inquires of the jobber the price at which he is prepared to deal; he gives the prices at which he will buy or sell, and if they are within the limits of the broker's instructions the bargain is at once concluded. That is the whole transaction. The bargain is afterwards checked by the dealer or his clerk, and the contract entered into is to all intents and purposes as inviolable and as binding as if fenced round with all the penalties and guarantees known to the legal profession. All contracts thus entered into must be settled by cash at the specified time. In stocks and shares, bargains are made for settlement either at the middle or at the end of the month. In Consols there is a monthly settlement. At these settlements all bargains and contracts previously made must be brought to a close; the stocks must be paid for or delivered, or arrangements made for their continuation under contracts which constitute a purchase or sale of the specific amount of stock for the current account, and *per contra*, a sale or purchase for the following account.

It may, and sometimes does, happen that in consequence of financial or political difficulties, seasons of panic occur, securities become practically unsaleable, and, consequently, the settlement of bargains a matter of great difficulty. Any member who through causes of this or a similar nature cannot meet his engagements is promptly dealt with, and "hammered" forthwith. On such occasions members await anxiously the announcement of one of the officers of the House, who, standing in the centre of the hall, strikes three blows with his mallet, and in an interval of silence, exclaims, "Gentlemen, John Noakes begs to inform the House that he cannot comply with his bargains." Upon this, the official assignee fixes the prices at which all open bargains are compulsorily closed, such prices being those current in the market immediately previous to the declaration. The defaulter is bound in accordance with the rules to hand to the official assignee a statement of his assets and liabilities, and this official at once proceeds to the realization of the estate, which he distributes as early as possible amongst the creditors.

Where the defaulter has made restitution, and has paid out of his own resources not less than 6s. 8d. in the pound of his liability, he may become eligible for re-admission, and the consideration of claims of this description forms a part of the duties of the governing body. If the Committee is satisfied that the cause of failure arose from default of a principal, that there was no bad faith or breach of the regulations of the House, that the defaulter's operations had been reasonable and in proportion to his means, and that his general conduct had been irreproachable, the defaulter is re-admitted with a first-class certificate. If his conduct has been marked by indiscretion or want of caution, he receives a second-class certificate; and those whom the Committee may not feel warranted in excluding, and are ineligible for a first or second, may be admitted with a third-class certificate. As regards the principals of brokers, they are admitted to claim upon the estate upon the same footing as members, and in practice it is found that they are glad to avail themselves of a machinery which saves them from the ruinous expense and delay involved in a liquidation under the Bankruptcy Laws. As a matter of fact, the principals of the broker have the advantage of the machinery of the Stock Exchange—*plus*, the protection of the law of the land. The greater portion of the duties of the Committee consists in the regulation of matters in dispute which must necessarily sometimes spring up in reference to bargains. There are questions as to whether the securities are in proper form and negotiable. Some securities require endorsement; others special forms of identification. Stocks are bought or sold subject to allowances or additions on account of dividend, and new stocks are created and various other matters arise. The Committee has to decide questions in dispute as to drawn bonds, and a variety of cases arising out of the requirements of the Stamp Act, and of an almost endless number of questions involved in the proper execution of the vast business of the public.

No inconsiderable portion of the time of the Committee has been taken up of late years in the adjudication of cases arising out of decisions by Courts of Law. It was not without enormous labour, that, in spite of adverse points in the first instance, the Committee succeeded in upholding the reasonableness of Stock Exchange usage in the important question involved in the great cases of *Coles v. Bristow*, &c. For, it is scarcely too much to say, that the almost unanimous opinion of the legal profession was at first opposed to the

position ultimately established. After years and years of costly legislation, the rights and liabilities of partners, the responsibilities of promoters, contractors, directors, &c., under the Limited Liability Act, are as yet unsettled. It cannot, with any justice be charged to the governing body of the Stock Exchange, that they are responsible for irregularities which have arisen outside their doors, and which are attributable to legal regulations under which seven persons subscribing for one share each are allowed to initiate a company. What greater encouragement could have been given for the fabrication of illegitimate companies, and for the disgraceful manipulations, in some instances by persons who are yet in high places, which from time to time have been made public! Powerless to correct malpractices by those outside their jurisdiction, the Committee are ever ready to maintain the honour of the Stock Exchange by prompt and vigorous measures in the case of misconduct by any of their own members.

THE COMMITTEE FOR GENERAL PURPOSES. "SETTLEMENTS" AND "QUOTATIONS."

No. V.

ONE very important part of the duties of the Committee of the Stock Exchange is that which is connected with the special settlements and official quotations of foreign and colonial loans and the shares of new companies. It has been assumed in certain quarters that, by admitting securities to settlement and quotation, the Stock Exchange give thereby something in the nature of a guarantee to the public of the value of the securities thus recognized. This opinion is based upon a complete misconception of the functions and duties of the Stock Exchange. In the transactions of this particular market nothing is vouched for or guaranteed beyond the genuineness and authenticity of the documents which pass from hand to hand, and which represent the particular bonds or shares or scrip actually bought and sold.

A "special" settlement means nothing more nor less than that a number of transactions have taken place between the public and members of the Stock Exchange, and that those bargains must be settled and closed on a particular day named. The settlement takes no cognizance of the objects, the promises, or the motives of those who bring forward loans or companies for public subscription. It is a rule of the Stock Exchange that all bargains in the scrip of a new loan or share of a new company shall be for a special settling day. The appointment of this settlement is an act which simply makes compulsory the closing up of such contracts on a particular day, and is designed to protect that principle of inviolability of contract which underlies all transactions in the Stock Exchange.

Parliament "in its wisdom" has enacted that any seven persons possessing sufficient funds among themselves to pay the required fees, may, upon subscribing one share each, register themselves as a joint-stock company, with limited liability, for any lawful and legitimate purpose, and with any amount of capital. The company thus constituted has the power to apply to the public to take shares in their enterprise, and make themselves liable to the full amount represented by the shares for which they subscribe. A company thus formed wishes, of course, to have the privilege of free dealing in its shares, and of seeing them quoted in the official lists of the Stock Exchange. It would have been quite competent and in complete accordance with the principle upon which the Limited Liability Acts were framed—viz., that of encouraging the promotion of joint-stock companies—that these facilities should have been at once granted by the Stock Exchange to any such undertaking which should satisfy them that all the requirements of the Joint-Stock Companies' Registration Office had been complied with, and that seven persons had each subscribed for himself one share in the undertaking. We can understand a state of things in which these seven promoters might even have been enabled to call upon and compel the Stock Exchange Committee to give to them the benefits of their institution, so far as the settlement and quotation of their shares were concerned. The Stock Exchange has, however, by its rules, provided some safeguards for the public which were entirely lost sight of by the Legislature when passing the Limited Liability Companies' Acts. Before admitting a new company to the privileges of a settlement, the Committee require "That no

allegation of fraud be substantiated; that there has been no misrepresentation or suppression of material facts." Public notice is given that application has been made for such settlement, so that opportunity should be afforded to any persons to come forward and substantiate any of those facts which, if proved, would prevent the grant of a settlement. If no charge of this sort is proved, the Committee proceed to consider the question. It has frequently happened that subsequent events have shown that material facts have been suppressed, and that fraud has not been absent from the inception of the company. But the Committee have no legal power to inquire into the origin of companies, nor into the motives or conduct of promoters or directors. It is sufficient that they notify to the public that they are about to consider the application for a settlement, and it is the duty of those who are in a position to prove either fraud or misrepresentation to offer to the Committee the benefit of the knowledge which they possess on those matters.

The Committee, however, go one step further in order to provide something in the nature of protection to the public which, however, the Legislature has wholly failed to afford. Before granting a "settlement," it is required that the applicant should produce the prospectus, the Act of Parliament, the articles of association, or a certificate that the company is constituted upon the cost-book system, under the Stannary laws. These being evidence that all the legal requirements have been complied with, so far as relates to the position of the company and the public, it is further necessary to produce "the original applications for shares, the allotment book, signed by the chairman and secretary to the company, and a certificate, verified by the statutory declaration of the chairman and secretary, stating the number of shares applied for and unconditionally allotted to the public, the amount of deposits paid thereon, and that such deposits are absolutely free from any lien, the banker's pass-book, and a certificate from the bankers, stating the amount of deposits received."

The privilege of "quotation" of the shares of a new company is not given until it has been proved that the prospectus of the company has been publicly advertised, and agrees substantially with the Act of Parliament or the articles of association, and, in the case of limited companies, contains the memorandum of association. It must be shown that the issue of not less than one-half of the nominal capital, and the

payment of 10 per cent. upon the amount subscribed, are provided for, the arrangements for raising the capital, whether by shares fully or partly paid up, with the amounts of each respectively, "and also the amount paid, or to be paid, in money or otherwise, to concessionaires, owners of property, or others on the formation of the company, or to contractors for works to be executed, and the number of shares, if any, proposed to be conditionally allotted." It is required further that it should be shown "that two-thirds of the whole nominal capital proposed to be issued have been applied for and unconditionally allotted to the public (shares reserved or granted in lieu of money payments to concessionaires, owners of property, or others, not being considered to form part of such public allotment); that the articles of association restrain the directors from employing the funds of the company in the purchase of its own shares, and that a member of the Stock Exchange is authorised by the company to give full information as to the formation of the undertaking, and be able to furnish the Committee with all particulars they may require."

When a new company is started it is of course the first object of the promoters to obtain the necessary capital from the public, and one means which has been very extensively resorted to is that of quoting the shares of the new company at a premium. The fact of quoting the shares at a premium induces many persons to believe that the company is inherently good, and that the demand for the shares is in excess of the number to be allotted, and just as they believe this to be the case, the public are the more anxious to obtain the shares. The application may have been founded on a genuine belief that the prospects of the company warranted this premium on the price of issue, or it may have been really based upon the desire to obtain an allotment of the shares, to sell them at once, and secure the profit which could be made by selling at the premium. This latter venture has prompted many thousands of persons to apply for shares who would not have been induced to do so by any opinion as to the real or prospective value of the undertaking. In times gone by, the application for shares had grown into the dignity of a profession, whose members were known as "Stags." In very many cases—perhaps the majority—the premiums were really "fictitious." The promoters of a company, setting their own value upon the shares, placed them at 2 or 3 premium, and instructed brokers to buy all that was offered at that price.

The public in very many instances sold the shares in anticipation of obtaining an allotment, and the rule of the Stock Exchange by fixing a special day for settlement, compelled those who had thus held out inducement to the public to subscribe for the shares to complete their bargains. This is only a matter of strict justice. If the promoters encourage the public in the belief that the shares are really worth more than par, and create a market for keeping up the price, it is but right that they should be held personally to the completion of their own bargains. This, though perhaps a subsidiary consideration, is important in connection with the fixing of days of settlement.

The grant of a settlement or a quotation, therefore, simply implies that certain preliminaries, required in part for the protection of the public, have been complied with. The official lists published, or rather sanctioned, by the Stock Exchange are designed to give nothing more than the actual figures as presented by the companies, and without comment or criticism of any kind. Some years since, in 1848, "The London Weekly Railway Share List" contained some strictures, written by Mr. R. Lucas Nash, upon the accounts of the Midland, Brighton, and other railway companies. These comments encouraged a violent attack by the "Tars" on the stocks of the Midland, and other companies, and a lively controversy ensued. George Hudson, then chairman of the Midland Company, replying to these comments, said:—

"The writer thinks he has discovered a discrepancy of £1,500,000 between the productive capital of the company and the amount on which we have paid dividend and interest out of revenue. The discrepancy has, however, no existence, except in his own mind."

In the article which appeared in the *Railway News* in 1871, on "the Rise and Progress of the Midland System," this controversy is referred to at some length. With respect to it, we then said:—

"The attention of the Committee of the Stock Exchange having been called to the serious errors made in the official list, they at once took action in the matter, and passed a resolution which stated that, it having been proved that serious errors had been made in the calculations respecting the Brighton and Shropshire Union Railways, and it appearing that, notwithstanding due notice in such publications that the Committee of the Stock Exchange are in no wise responsible for the editor's remarks, that the Press and the public still connect the Stock Exchange with the said remarks, the contents of the Weekly Share List be limited to the usual tabular railway statistics, prices, and official correspondence."

The rule thus laid down has since been implicitly adhered to by the Stock Exchange. No opinions are expressed in any of its publications as to the value or accuracy of accounts published by the various companies, or of the basis upon which dividends are declared or paid. It is obvious that any departure from this rule would be attended with considerable inconvenience, and might be liable, if not to abuse, at least to the suspicion of motives of those who were responsible for the statements which might be made. The publications of the Stock Exchange are the "Daily Official List," the "London Weekly Stock and Share List," and Slaughter's admirably-arranged "Railway Intelligence." These give the daily prices of railways, quotations of stocks and shares, the capital and dividends, and, in the case of railways, a very complete abstract of the principal features of the half-yearly accounts of the leading companies.

In regard to foreign and colonial loans, the same principles which apply to the settlement in, and quotations of shares of railways and public companies are set up. Due notice is given of the application for a settlement for any foreign or colonial loan. The Committee insist on one very useful regulation for the protection of the public, which is "that no new bonds, stocks, or other securities issued by any foreign Government that has violated the conditions of a previous loan," shall be recognized, unless it be proved that a settlement of existing claims shall have been assented to by the general body of bondholders. Application for the settlement in the bonds of a foreign or colonial loan must be accompanied by "the prospectus, the notarial copies or translations, or other satisfactory evidence of the powers under which the loan is contracted, and by a certificate, verified by a statutory declaration of the contractors or agents, of the amount allotted to the public. A quotation is granted in cases where it shall appear that "the loan has been publicly negotiated, and that the bonds fully disclose the amount and conditions of the loan, the powers under which it has been contracted, the numbers and denominations of the bonds, and that they are duly authenticated by the signature of the contractor or his agent. All that is done is to secure that the bonds truly represent the nature of the loan, and by granting either a settlement or quotation the Committee of the Stock Exchange do not add one iota to the inherent value of the security. By these acts the securities are simply made more readily negotiable or marketable, and at this point the func-

tions of the Committee cease. It is for the public to decide as to the nature of the security and its suitability for investment, and, having formed their own conclusions, the Stock Exchange provides the machinery for enabling the investor or speculator to give effect to his particular views.

This view of the duties and functions of the Committee of the Stock Exchange in regard to questions of securities is held by the Agents de Change, in Paris, whose mode of conducting business at the Bourse has hitherto been unassailed. Mr. Moreau, chairman of the Paris Company of Agents de Change, in his report to that body on the proceedings of the year 1874, referred to by our contemporary, the *Economist*, on 25th March last year, deals with this subject, and protests against the idea that the "quotation" can create a responsibility for those who accord it.

"It is to be regretted," he says, "that our business should be so imperfectly understood by the public, and that they should attach to certain of our acts a meaning which they have not, and never should have. It is supposed, often wrongly, that the admission of a security to quotation is a sort of consecration given to it, a testimony in its favour, a recommendation to the Syndical Chamber. There can be no greater error. The quotation is nothing more than an affirmation that a security has been sold at certain prices. If it pleases a number of capitalists to do large business on any undertaking, to them belongs, and not to us, the delicate task of judging whether the affair is a safe or an unsafe one; provided that it comes within the conditions required by the fiscal laws, and realises sufficiently the conditions of competition and publicity, we cannot refuse our services, as we are in possession of a monopoly. The Syndical Chamber of Agents de Change has always taken care to avoid all responsibility with respect to the quotation. In 1887 it wrote to M. Lacare-Laplagne, then Minister of Finance, a letter by which it asked him to decide finally on the admission of new securities; he refused categorically to do so, inviting the Chamber to do its best, and to act with prudence; and while himself repudiating the responsibility, admitted that it should not fall on us. Since that time the Syndical Chamber has obtained all the documents which have appeared to be of a nature to show, with the greatest probability, the value of the security; it has required that, by the importance of the capital and the diffusion of the titles, there should be a public interest in quoting the security; it has demanded lists of subscribers, constituting a serious guarantee of the undertaking, and for foreign securities the quotation of the country whence they came. Does that mean that the Chamber accepts any responsibility whatever? By no means. It simply obtains information which may appear to be useful to prevent fraud or folly; but it has not the pretension to make itself answerable for the undertaking. And if false lists have been submitted to it, and its good faith has been abused by authentic signatures, there are laws to punish the guilty parties, and judges to apply those laws. To ask for more would be to demand what is

impossible, and to provoke the Chamber to refuse its offices to new securities; it would be to stop business and paralyse that great spirit of enterprise to which our age is indebted for being what it is, and humanity for the progress it has made during the last fifty years."

INVESTMENT AND SPECULATION.

No. VI.

ONE of the popular fallacies of the present day is the opinion that the Stock Exchange is a mere centre of gambling transactions, and not what it really is—a market in which stocks and shares, and other representatives of invested capital, are freely bought and sold for and on account of the public. It is in the Stock Exchange that the Government of this country acts through its brokers when applying the surplus of the National Debt to the purchase of consols; the Savings Banks Commissioners buy and sell here as occasion requires; the Accountant-General of the Court of Chancery invests his accumulated funds through the agency of the Stock Exchange; the Bank of England, the wealthy banking companies, the great City companies, the Corporation of London, insurance offices, and the great financial houses buy and sell securities in this market. The manner in which the large transactions of these establishments and firms is conducted is one of the most remarkable features of the financial business of the present day. The purchase and sale of securities to the value of millions are completed in a manner which affords evidence of the wealth and stability and the confidence which is reposed in the Stock Exchange. Loans of millions on consols or other forms of securities, or the direct sale of large amounts of stock, are matters of constant occurrence for those administrative and financial bodies to which we have referred, and from whom the public have never heard a word of complaint as to the manner in which the business of the Stock Exchange is conducted. Transactions of this nature form a great bulk of the dealings on the Stock Exchange. Investment is the real business; speculation is an excrescence which has grown up, and clings to the body, as it has and always will do to all kinds of business so long as men will endeavour to discount the future and seek to benefit themselves by fluctuations of value. In former

imes, when it was thought that an Act of Parliament had sufficient power to control the morals of the public, speculation was strictly forbidden. In the Middle Ages the *vraitter* who bought corn to sell at a higher price was regarded as an enemy of the State, and was occasionally dealt with in a very summary manner by the public, and his operations sometimes successfully checked by the public executioner.

Under the old statute of 7 George II., c. 8, dealings in fine bargains were made illegal, and it was enacted that—

Contracts in the nature of wagers, or contracts apparently framed or the sale or purchase of stock, but really intended only to enable the parties to speculate upon contingent fluctuations in the market, without any stock being actually sold, shall be void, and those engaging in them subjected to a penalty of £500.

This Act, which was made perpetual by the statute of 10 George II., c. 8, further enacted that any person contracting to sell stock of which he was not actually possessed or entitled forfeits £500.

It is a singular fact, and one affording a striking commentary on the value of attempting to create "statute-made defences," that during the whole of the time in which these Acts were in force, and until it was repealed a few years since, not a single conviction by a jury was known to have occurred under this Act, although speculation attained enormous dimensions on several occasions. We need not instance the South Sea Bubble or the widespread mania for speculation in 1825, and, in later days, the railway mania and its consequences in 1845-6. Finding itself powerless to carry into effect the provisions of the Act known as Sir John Barnard's, the Legislature has very wisely decided that if English men and women—for experience has shown that the fair sex cannot resist the temptation to dabble on the Stock Exchange—will speculate they must be made to contribute something to the revenue of the country. It was therefore enacted that the evil, which could not be suppressed, should be taxed; and it is now required that every contract for the purchase and sale of stock must be legalised by a stamp affixed to it. A laudable desire to interfere to prevent excessive and dangerous speculation induced Parliament a few years since to pass an Act known as "Leeman's Act," which forbade dealings in shares of joint-stock banks unless the seller specified at the time of the sale the actual numbers or description of the particular shares which he

wished to sell, and furnished the same to the buyers. It is difficult to understand the grounds upon which bank shares were thus specially protected. It was argued that by a combination of speculators the credit of a bank might be destroyed, and as the maintenance of its credit unimpaired is essential to the success of a banking institution, the Legislature ought to interfere to secure to the banks immunities from attacks on its credit. The system of protection of banking credit is an anomaly in our Legislature, and the law restricting dealings has only had the effect of creating difficulties in the way of buying or selling bank shares which do not exist in any other species of joint-stock enterprise. It is now so much more difficult to deal in these securities than formerly, that business in them has been reduced in many cases to a matter of negotiation. It is doubtful whether any bank in a solvent condition would be injured by speculative sales of its shares, and, if the concern is unsound, it appears to be most impolitic to bolster up its credit by setting up artificial difficulties in the way of bargaining in its shares. One effect of Acts such as those of Sir John Barnard and Mr. Leeman should not be overlooked, and that is, the encouragement which they give to repudiation of contracts upon technical grounds. It may be that men and women ought not to speculate, but if they do indulge in this form of excitement, it is surely better that they should do so upon the principle that all their bargains must be strictly and honestly fulfilled, rather than that the Legislature should create laws which encourage the temptation to repudiate bargains. The records of the Stock Exchange would, no doubt, contain some curious illustrations of this tendency, on the part of unprincipled speculators, to profit by any technical plea which the law affords to evade bargains, the fulfilment of which would involve pecuniary loss. Some large transactions in the shares of a bank established a few years since in the North of England were thus repudiated by the promoter, who, bringing the law notions as to contracts which he had acquired in America to bear on the requirements of Mr. Leeman's Act, coolly repudiated several thousand shares which he had instructed his broker to buy on his account, because the contract did not specify the number of the shares. This "smartness" on the part of the transatlantic promoter caused a loss of several thousand pounds to those who by his repudiation had all the shares thrown upon their hands.

Too much importance appears to have been attached to the effect of speculative sales of shares on the credit of a banking institution by those who sanctioned Mr. Leeman's Act. It was not the sale of shares speculators which brought about the collapse of the great firm of Overend and Cuney in 1866. Several persons connected with that firm, well acquainted with its critical position, did actually sell a large number of shares at high prices to unsuspecting buyers; but when the crash came it was not caused by these anticipatory sales. Those who had previously sold had to buy back, and in doing so they enabled many shareholders to obtain much better prices for their shares when the collapse occurred than they would have done had the market not been sustained by their repurchases. Those who are in the habit of speaking in severe terms of operators known as "bears" often overlook the fact that transactions on the Stock Exchange, as in trading enterprises, can only be completed by sale as well as purchase. A speculator may be in hopes of selling at an advance, or he may sell hoping to buy back at a lower price, but in either case it is the hope of obtaining the difference on this double transaction which creates the incentive to speculate. It is quite true that one particular set of operators may not have their wish realized, and their transactions may result in a loss, but, on balance, what is lost by the "bears" is gained by the "bulls," and *vice versa*. We are not concerned to discuss the morality or immorality of transactions of this description; the contract entered into, may be, as described in the Act of George II., "a contract in the nature of a wager" or a *bona fide* investment. But mankind in all ages and in all civilized countries have indulged in speculation in some form or other. The principle of speculation underlies every department of trade and commerce. The merchant buys in the hope of making a profit by his venture, the trader lives by the difference at which he buys and sells, and it is his business to buy in the cheapest and sell in the dearest market. The *bona fide* investor in stocks and shares buys not only in the hope that he will obtain a fair return on his money, but that he will be enabled, when so desirous, to sell at a higher price than that at which he bought. But for the existence of a desire of this nature enterprise would cease, everything approaching to a venture would be avoided, and all those motives connected more or less with this principle, which have

played such an important part in the progress of civilisation, would have no field in which to operate in the future.

It is a fact not sufficiently considered that it is both the intent and effect of Stock Exchange practice to control and regulate speculation, as is demonstrated by the printed rules, which are published and procurable by the public. Thus, the appointment of periodical settling-days and the restriction of credits within the narrowest limits, not only compel the enforcement of contracts, but act as a penalty upon speculation. What can constitute a more effectual check upon gambling than the requirement that all carryings over shall be in the form of new contracts, involving further charges for the following fortnight? The legislation for the administration of defaulters' estates is entirely based upon the principle of short settlements and restriction of credits. Any Government interference would fall far short of this machinery in providing such a practical and effectual check.

FACILITIES FOR TRANSACTION OF BUSINESS.

NO. VII.

ONE feature which distinguishes the London Stock Exchange from that of almost every other association of its kind, is the opportunities which it affords during the whole of its business hours for the buying and selling of stocks and shares. In the New York Stock Exchange and some of the Continental Bourses business is only transacted at specified times of the day, which are termed "boards," and on these occasions only the particular kinds of securities previously entered are dealt in. At other times of the day dealings have to be negotiated with those who may happen to be buyers or sellers of the particular stock or shares in which bargains are required to be completed. By the continuous system adopted in the London Stock Exchange, the public are afforded a ready means of buying or selling at any time of the day. The buyer has no necessity to wait until a seller is found, and a seller need not go in search of a buyer of the precise amount of the particular stock of which he wishes to dispose. Each

jobber or dealer is at once buyer and seller of the stocks or shares in his department of the market. At all times he is ready to state a price at which he will buy of or sell to the broker, trusting to the "turn" of the market to enable him to make up by purchase from others who are sellers, any amount which he may require to complete the delivery of the stock; or he may, on the other hand, sell to others who are buyers any surplus which he may have over and beyond that required for the arrangement of his account at the fortnightly settlement. As explained in a previous article, the "dealer" is enabled to provide this ready and constant market by the fractional difference which he makes between his buying and selling price. Asked the price of any particular stock in which he deals, the "jobber"—governed, of course, by considerations of the dull or active condition of the market, or the facility with which the particular transactions can be entered into—will state two prices, at the lowest of which he will buy and at the highest of which he will sell the specified stock.

The Stock Exchange, like every other market, is subject to influences which affect prices, and which control the extent of its business. In dull times and in stocks in which there are but few transactions, the "turn" of the market is widened and the amount of stock for which the prices is made is judiciously limited. At other times, and when business is active, dealers will make a price at which they will deal practically without limit. Some years since an instance occurred of a broker who, on the opening of the market, asked a dealer for a price in Spanish stock. A price was given, and in reply to the question as to the limit the dealer said he would take all that was offered. "Sell you half a million," was the prompt answer of the broker; and the enterprising dealer booked a transaction which made him liable for more than £150,000 with as much calmness as if the affair had been one of a few shillings. A few minutes later other brokers came hurrying in to execute the orders of their clients, and to sell Spanish. Calm, in the midst of the general excitement, the dealer took all that was offered, until he had nearly doubled his original purchase, and finding the supply gradually falling off, he offered his Spanish stock at $\frac{1}{2}$, then $\frac{3}{4}$, then $\frac{1}{2}$ per cent. above that which he had given for it; and many of those who had before rushed in to sell Spanish, seeing the price thus advancing, became eager buyers, at higher prices, of a considerable portion of that stock which

they had as hastily sold. Before the day was over the great bulk of Spanish stock had again changed hands, and the dealer learned from the telegrams in the morning papers the next day of one of the many revolutions of Madrid, and the early or anticipated news of which had led to the heavy sale to him on the previous day. Had these enterprising sellers of Spanish been compelled to wait for purchasers to take this large amount of stock off their hands, the price would have seriously declined long before the last £1,000 had been disposed of. It may be urged that it would have been better if no such facility had existed for transactions of such magnitude, and other speculative bargains which followed it. Those, however, who put forward such an argument simply limit their objection to speculation to a question of degree rather than of principle. Had the London Stock Exchange been a limited market, where sellers must wait for individual buyers, such a transaction as that just mentioned would have been impossible.

In the interest of the actual investor in public securities, no reasonable person would wish to create difficulties in the way of his freedom of buying and selling, simply because this freedom of market may sometimes be used for purposes of speculation as well as for actual investment. Assume in the instance just referred to that the seller of £500,000 Spanish stock had none to deliver at the time he made this sale, he would by the rules of the Stock Exchange be compelled to purchase an equivalent amount of the stock which he had sold, and, unless aided by a fall in the price, he could not have bought this large amount without making a heavy loss. His purchases, however, would tend to sustain the market, and any temporary injury which the original sale might have caused would have been compensated by the repurchases. Given the existence of a spirit of speculation, which, however much it may be deprecated, cannot be suppressed; which finds employment alike in prosperous and in adverse times; which makes its profits in the rise as well as in the fall of prices—it would appear decidedly for the interest of the real buyer or seller that they should deal in the market which offers the greatest facility for the transaction of his business, even though such a market presents, and necessarily so, the greatest facilities for speculation. Many illustrations might be adduced to show the practical effect of speculation working in the interest of buyer and seller. The persistent sales of speculators,

for instance, depress the price of particular stocks or shares, and, upon the heavy fall thus produced a favourable opportunity is afforded for the purchase of securities upon favourable terms. So, on the other hand, when extensive purchases force up the price of a stock to a figure much above that which the owner originally gave for it, this inflated market affords an opportunity for selling at a large profit. The buyer or seller in these cases need not trouble himself to inquire into the motives which have influenced the prime movers in these transactions. It is not likely that they will tell the public the precise reason for their action, nor will they take them so far into their confidence as to inform them when they propose to close their transactions. When speculation thus affects the value of securities, holders, or intending purchasers of stock, not unfrequently avail themselves of the opportunity to profit by these movements, and without indulging in any idle protestations or unavailing regrets over the depravity of the age, as illustrated by the growing tendency to speculate; and act upon the pithy maxim of one of the great financiers of the age, and also a shrewd observer of human conduct, that "fools buy when wise men sell, and sell when wise men buy."

Various objections have been urged against the constitution of the Stock Exchange, and some remedies have been suggested. It has been objected to the Stock Exchange, for instance, that it is a monopoly. This, however, is not so, or is only such by virtue of the general confidence which is reposed in its transactions. It possesses no exclusive charter and no Act of Parliament, and there is nothing to prevent anyone deserving to give effect to the principle of competition in this branch of business, setting up an establishment for buying or selling stocks and shares. Competition has, indeed, been tried on former occasions. Some years since there was an open Stock Exchange in Lothbury, and another in the Hall of Commerce, Threadneedle Street, but as the markets provided at these establishments was a limited one, and the same facilities did not exist for completing bargains, they languished for want of support. There is nothing to prevent any or more persons buying and selling stock or shares of each other at a price mutually agreed upon, without the employment of a broker or resorting to the machinery of the Stock Exchange. If "A" wishes to sell consols or railway stocks or shares, and if "B" is willing to buy them, there is nothing to prevent their

completing the transaction between themselves by signing the transfer and having the transfer duly registered. It is only because the Stock Exchange affords a ready and convenient mode of transacting this kind of business, that it possesses what is termed "a monopoly." If the transactions took place between the principals and without the intervention of brokers or dealers as at present, no one would be able to sell any particular amount of stock, unless he knew of a purchaser for the actual amount of which he had to dispose. A person who wished to sell £5,000 consols, might, in order to carry out his intention, have to dispose of different portions to half-a-dozen buyers. The result would be a complication of contracts and bargains, the fulfilment of which might in many cases involve a large amount of litigation, and give to the legal profession a substantial addition to their business. As at present arranged no difficulty of this sort is experienced. A buyer is always found for the stock which the seller wishes to dispose of, and the contract entered into is one which may be implicitly relied upon, and will be carried out without failure or disappointment, practically with as much certainty as the payment "on demand" of a Bank of England note.

Another class of objectors are those who think that the business of the Stock Exchange ought to be transacted openly and in the presence of the principals. In the open Stock Exchange, to which we have just referred, shares were sold by auction, and the owner could attend and hear the bidding for his stock. This was a plan which could be adopted in the sale of securities in which there were but few transactions, but which would be absolutely inapplicable to dealings which amounted to thousands, or millions. If every transaction entered into were to be subject to the fall of the hammer of the auctioneer, the amount of business done would necessarily be comparatively very small. Many of the abuses connected with the present system of conducting an auction would speedily grow up under such an arrangement, and speculators would soon organise among themselves some plan analogous to that known as a "knock out" at auctions.

As regards admitting the public to see their business transacted, it would of course be practically impossible for the great bulk of buyers and sellers to be present, and would involve a journey from his particular locality every time an investor desired to buy or sell stock. In Paris, New York, and

so ne other Bourses the public are admitted into the gallery, but many of the visitors are there more out of curiosity than for business, and a very curious sight it is to look down from these galleries on the scene of excitement which the body of the hall presents. An excited crowd of brokers and dealers is seen in the arena shouting, yelling, and gesticulating in a violent and frantic manner. They are speaking a jargon which, to the uninitiated, is utterly unintelligible, and in that struggling and clamouring and excited crowd it would be hard to distinguish even the broker deputed to act for his principal, and impossible to ascertain the nature of the business he had actually transacted, beyond what he chose to disclose. The admission of the public could, by no possibility, act as a check on brokers if dishonestly inclined, while we can imagine many circumstances under which a system of collusion would be possible for deceiving the eyes and ears of the principal who should be disposed to trust more to the organs of hearing and seeing, than to the honour and integrity of the agent whom he employed. In his work on Sociology, Mr. Herbert Spencer, referring to the manner in which bargains of this kind are treated by the Stock Exchange, says:—

“ So-called debts of honour, for the non-payment of which there is no legal penalty, are held more sacred than debts that can be legally enforced ; and on the Stock Exchange, where only pencil memoranda in the respective note-books of two brokers guarantee the sale and purchase of many thousands, contracts are safer than those which in the outside world are formally registered in signed and sealed parchments.”

The Paris Bourse is what is known as an open Stock Exchange, but this establishment is entirely a Government monopoly, and in this respect differs very materially from the London Stock Exchange. No one, however, for a moment supposes that there is less speculation in Paris than in London. On the contrary, this species of excitement is indulged in to a very much larger extent than in this country. One of the effects of the regulations of the Paris Stock Exchange is, that in times of excitement, all those who have business to transact swarm, like bees from the parent hive, in the *Passages* and on the *Boulevards*, making these thoroughfares at times impassable to the public, and business has even sometimes been kept up till midnight. This mode of business is scarcely one which can be regarded as an improvement on the present system.

If speculation cannot be suppressed it will, we think, be

admitted that it works less mischief in the larger than in the smaller centres of business. The facilities that exist in the present day for speculation, and the range over which it extends, far exceed those of any other period of our history. Foreign loans, home, colonial, and foreign railways, and the thousand forms in which the principle of limited liability presents itself—all offer temptations for buying and selling in the hope of gain, and all attempts to suppress this form of excitement, and this extensive application of capital, must end only in disappointment to those who would seek to base legislation upon sentiment rather than upon practical considerations. A broker is instructed by telegram or letter to buy or sell a particular kind of stock at a price specified. Can the broker stay to inquire whether his client is or is not a speculator in the first or second category. What would be the effect if the law made it penal for him to act until he had satisfied himself of the *bona-fides* of the investor ? Difficulties innumerable would arise from any attempt to enlarge the scope of Leeman's Act, and embrace within its meaning other descriptions of securities than those of Joint Stock Banks. Such an extension of the Act would seriously interfere with that freedom of market which it is so desirable to maintain, and would only accomplish a problematical good, at the expense of introducing a certain evil. We are accustomed to hear a great deal about the injuries done by excessive speculation. No doubt speculation on the Stock Exchange, as in other matters, is sometimes indulged in to a most mischievous excess. Not a few persons have been ruined, and many more in the future will no doubt bitterly repent the day when they were induced to seek fortune by speculating on the Stock Exchange. But the Legislature should be careful, while endeavouring to find a remedy for the abuses of the few, that action of legitimate enterprise is not injuriously affected.

It is a curious fact, that just fifty years ago the attention of the House of Commons was directed to the extent of speculation and the working of joint-stock companies in those days. Mr. Alderman Waithman then proposed the appointment of a Select Committee to inquire into the joint-stock speculations of the three previous years. He denounced “ the knavery by which a fictitious value was for a time given to shares, which had cost nothing ; that the solid difference between imaginary prices might fill the pockets of the gambling speculators, and the misery and ruin produced by this systematic swindling.” But in the face of

these serious charges, which bear a wonderful resemblance to many of the remarks which we are accustomed to hear in the present day, Mr. Huskisson, having fully considered the probable results of such an inquiry, said:—

It would surpass any powers which he possessed, or any leisure which he could bestow upon it, to probe to the bottom the merits of the numerous existing speculations, and to be able to decide which was likely to turn out a beneficial undertaking, and which a bubble. It was, as it seemed to him, for the public to inquire into and determine before they engaged in any scheme of the kind. His opinion certainly was that the parties who engaged in those speculations ought to be more cautious.

Similar views were expressed by Mr. Canning, then Prince Minister, and by many of the leading members of the House of Commons. Mr. Hudson Gurney said:—

He thought the House had gone much too far in the Aragua business [*a foreign mining operation, to inquire into which a Committee had been appointed in the previous year*] and he was glad of an opportunity to retract their steps. He was doubtful as to the propriety of the course they had adopted, and dreaded any extension of the principle.]

The motion for the appointment of the Committee was withdrawn, and we cannot but think it would have been better if the House of Commons in the present day had taken this course as a precedent when dealing with the motion for the appointment of a Royal Commission into the constitution and modes of business of the London Stock Exchange.

THE PROPOSED ROYAL COMMISSION OF INQUIRY INTO THE STOCK EXCHANGE.

(From the *Railway News*, March 24th.)

THE statements made by some of the speakers in the House of Commons, on Tuesday, on the motion of Mr. Yorke for the appointment of a Royal Commission to inquire into the constitution and management of the business of the Stock Exchange, justify in one respect the grant of the proposed inquiry. It cannot be assumed for an instant that hon. members would state as facts matters which they knew or might have known to be unsupported by evidence. If so distinguished a body as the House of Commons is ignorant upon a subject on which some of its members are anxious to legislate, then assuredly a commission of inquiry should be granted, if

only for the purpose of instructing this branch of the Legislature, and enabling it to obtain correct information necessary to form correct opinions upon the subject. It may be quite true that the facts which are required to be ascertained are clear, patent, and accessible to the whole world; but then it is so much more in keeping with the dignity of a national assembly that they should be instructed by the report of a Royal Commission rather than by the usual channels of information. It is quite true, as was pointed out by more than one of the hon. members, that there was really nothing to be learned about the Stock Exchange that was not already available. It is quite true that no one had any specific charge to make against the Stock Exchange as a body; and, not able to find a grievance, no one even suggested the nature of the remedy to be applied. There cannot be very much wrong with the Stock Exchange when the only charge that even such an expert in these matters as Sir E. Watkin could make was that it was "a trades union." If the charge were true, it was, to say the least, ingratitude for the hon. member for Hythe to have made it against his friends, for was it not those "influential members of the Stock Exchange" by whose advice and counsel he was led to propose that great boon to the public of a fusion of the South Eastern with the Chatham and Dover? Of the charge of Sir E. Watkin, it might be said—

"This was the most unkindest cut of all."

"Trades unions" are simply associations recognised by law, formed for the purposes of doing that which the hon. member for Hythe seeks to do as "the shareholders' friend" for those whom he represents in the railway world.

Passing to more serious charges urged against the Stock Exchange, we cannot but regret that the practical business-like observations of Mr. Goschen were not permitted to have a greater weight with the House. Had this been the case, a more correct opinion would have been formed as to the constitution and real functions of the Stock Exchange. The whole of the arguments addressed to the support of the inquiry were based upon utterly erroneous ideas upon these subjects. One would imagine from the remarks which were made that the Stock Exchange existed merely for the purpose of promoting speculation, and not for the transaction of the ordinary every-day business of buying and selling stocks and shares. With the character—good, bad, or indifferent—

of these securities, the institution has nothing whatever to do and does not, or could not, if it would, give any guarantee of the value of the things bought or sold. Some of the supporters of the motion appeared to think that the Stock Exchange had failed in its duty, because it had not protected one section of the public who were buyers, against another section who were sellers of doubtful or worthless securities. This is a duty which that body has never undertaken, and which it has not the machinery or power of discharging. It is urged against them that they permitted a number of foreign loans to be introduced into this country, the proceeds of which were squandered or stolen, and the dividends upon which have not been paid. But the persons who brought out these loans were the distinguished diplomatic representatives of foreign countries, accredited to, and received at, the English court—men whose diplomatic costumes were covered with the ribands and orders of their grateful Governments; who were accepted at great civic and public assemblies as the representatives of the diplomatic body, and whose well-turned phrases about the credit and resources of the Governments of Costa Rica or Honduras elicited the applause of post-prandial auditors. When these gentlemen offered to relieve English capitalists of a portion of their surplus wealth, they could always point with proud satisfaction to the declaration of British Ministers, that the great work of the Honduras Railway, which was to be undertaken by the founders of the loan, would be of inestimable value to the commerce and civilization of the world. If Turkey required a loan, there were to be quoted in its favour the opinions of a Prime Minister or a Foreign Secretary. On going back to earlier times, when the South American Republics wanted loans, there was put forward the proud boast of Canning about calling a new world into existence to redress the balance of the old. When Greece was fighting to the death over its phase of the Eastern Question, it was the patriots and political economists of that day who urged the British capitalists to provide the Greeks with that money which was wasted and plundered, and appropriated by the "friends of the Greek" in a manner which might even excite the envy of a contractor, or a diplomatic representative of Honduras.

It was urged, in the course of the debate, that the Stock Exchange had not exercised due vigilance with respect to the bringing out of these loans of modern times, and that the machinery of the association afforded facilities for placing

them with the public. This was no doubt perfectly true, and it is quite probable that some of its members may have acted, in regard to their share of the transactions, in a manner which could not be justified, and which was against the spirit in which the rules and regulations of the Stock Exchange had been framed. The charge made on Tuesday was, that these alleged malpractices on the part of some of the members of the body having been exposed by the Foreign Loans Committee, nothing had since been done by the Stock Exchange to prevent a recurrence of such scandals in the future. Circumstances have so completely changed since the report of the Committee in 1875 that it would be a work of supererogation to frame regulations as to the issue of foreign loans since that date of the class which formed the subject of inquiry by that Committee. No foreign loans of the kind then negotiated have since been offered to the public, and it will probably be many years before the rules and regulations of the Stock Exchange will be applied to their introduction into this country. It is not, however, correct to say, as was stated, that the recommendations of the Foreign Loans Committee have been disregarded. It was formerly thought that any statement of a Foreign Minister accredited to and accepted by our Government would sufficiently vouch for the authority and regularity of any proposed loan to the State which he represented. In deference to the wish of the Foreign Loans Committee it is now, however, required that particulars regarding any proposed foreign loan should be made under statutory declaration in all cases where the Stock Exchange Committee is asked to give to such loan an official sanction. The Committee recommended that the prospectus of a foreign loan should in future state, among other things, the following, viz.:—

1. The authority from the borrowing State.
2. The public debt of the State.
3. The revenue of the State for the preceding three years.
4. In case of special hypothecation, a full statement of the revenues, lands, forests, public works, or other property upon which the proposed loan is secured, and of prior charges, if any, upon such security.
5. A statement that no part of the proceeds of the loan is to be applied in buying back any of the stock, or (as the case may be) the amount, if any, which the borrowing Government reserves to itself the right to repurchase and cancel.
6. The funds out of which the interest is to be met during the next five years.

It is scarcely necessary to say that the recommendations of

a Committee have not the force of an Act of Parliament. They are simply the opinions of the members who form the Committee, and are open to discussion as to their merits precisely as any other propositions to be submitted to Parliament might be. With respect to these proposals, Mr. Cohen, in a paper read at the Social Science meeting at Brighton last year, made the following practical suggestions:—

1. Is always set out on every prospectus, with every circumstance of date and detail, and with an invitation to a closer inspection.
- 2 and 3. The second and third are given in the "Statesman's Year Book," and are now accessible to every one.
4. The fourth is now complied with, and with every possible parade in all cases where any hypothesis is now given.
5. The fifth is the only novel suggestion, and should be productive of advantage, although it is easy to show (and the report itself supplies an instance) how this provision could be evaded.
6. The sixth is hardly a practical suggestion, but at present it is only in the case of the worst loans that provision for future dividends is made at the outset.

Another point recommended by the Foreign Loans Committee was that "returns should be from time to time published in the Official Stock Exchange List, not only of the nominal amount of the loan which now appears in the list, but of the actual amount held by the public on which interest is paid." This suggestion has been acted upon, and the official list gives the particulars required, and more than this, for the list contains statements of "the actual amount held by the public," on which, unfortunately, interest is "not" paid.

The third great accusation urged against the Stock Exchange and in favour of the proposed inquiry, is the practice of quoting bargains before allotment. The Foreign Loans Committee expressed a very strong opinion against the custom of buying and selling stock on behalf of the contractors to create a fictitious market, for the purpose of inducing the public to apply for allotments of the loan. The report states that "the public had no means of learning that the contractor was the principal in these transactions," and they also add, "even the jobber was often ignorant of the fact. Up to the year 1864 the Stock Exchange refused to recognize bargains in shares made before allotment, but the rule broke down in the following year "under the pressure and persistent determination of the public to enter into such transactions."

It is curious to refer back to the money articles of those days

and read the quotations for shares of new companies prior to allotment. Among them is to be found one which Sir E. Watkin, who is now so loud in his complaints against "those who had originated the many disastrous transactions," was himself the chairman—viz., the Humber Iron Works. The shares of this company were quoted $1\frac{1}{2}$ to 2 prem. before a single share had been allotted. This was one of the many schemes on behalf of which promoters "appealed to the public through the Stock Exchange."

Those interested in the promotion of this company bought a large number of shares to keep up the price in the market prior to allotment. They subsequently sought to repudiate their contracts on the ground that such dealing in shares was illegal, and besought the Committee of the Stock Exchange, not to grant, or at least to postpone, the usual "settlement." The Committee, however, declined to accede to this request, and thus compelling that all bargains in the shares should be settled. Surely it was not the fault of the Stock Exchange if investors, tempted by promises in the prospectus of "20 per cent. and *upwards*" and "a much larger amount, if the works continue to be fully employed," eagerly subscribed for the shares. The capital of £1,000,000 was subscribed for this undertaking, the merits of which were vouched by the Chairman, "Mr. E. W. Watkin, Director of the Great Western Railway, and Chairman of the Grand Trunk Railway." In a few months the shareholders lost the whole of the money with the exception of that small portion which remained for distribution after the liquidators had performed "the last offices" for this most promising undertaking.

In a memorandum submitted by the Stock Exchange to the Foreign Loans Committee, this practice of dealing in securities before allotment was very fully discussed, and the following instance was mentioned:—

"The great French Indemnity Loan may be cited as an apt illustration of the inexpediency and inefficacy of interference. It is notorious that almost every house of standing throughout Europe was interested in it, and that dealings on an enormous scale took place immediately upon its announcement. It may be asked what conceivable restrictions or penalties could have prevented these dealings, either here or abroad. It cannot be denied that they contributed to inspire confidence and to insure the ultimate success of the loan. No one can measure the consequences that might have ensued, had the operation collapsed under a general prohibition of bargains before allotment. Influenced by these considerations, the Committee likewise deprecate any legislative action in the direction referred to. It is also their conviction, based upon long practical experience, that the possible advantage which

some persons may expect from restrictions or penalties imposed as a remedy for particular abuses, is more than counterbalanced by the positive mischief arising from the disturbance and obstruction of that free current of business which is so essential to the ready convertibility of securities, and is the very life-blood of the public market. The committee, moreover, venture respectfully to submit to the Select Committee, that the most effectual check to malpractices initiated and planned outside the walls of the Stock Exchange is to simplify the present cumbersome and costly system of civil and criminal procedure, and thus to afford the ready means of bringing wrong-doers within the reach of the law, and not to restrict (even though it may be for a few days only) that liberty of contract which prevails in all business transactions and in all countries."

It is curious to find that the Foreign Loan Committee, and the Committee of the Stock Exchange both concur in the impolicy of legislative interference in the buying and selling of stocks and shares. The Stock Exchange Committee recommend a modification of the present cumbersome and costly system of civil and criminal procedure, in order to afford "a ready means of bringing wrong-doers within the reach of the law." The Foreign Loans Committee express their conviction that the best security against the recurrence of such evils as they have above described will be found "not so much in legislative enactments as in the enlightenment of the public as to their real nature and origin." One of these bodies is speaking from long and practical experience of the working of the general business of the Stock Exchange; the other, founding its opinions upon the result of a long and patient inquiry into a particular class of transactions, arrived at the opinion that no practical good can result from legislative interference with the business of the Stock Exchange. "It is," as the *Times* points out, "remarkable, and probably unprecedented, that while many members supported the proposal for the appointment of a Royal Commission, not one made any practical suggestion for an amendment of the machinery of the Stock Exchange. When even Mr. Lowe fails us, the chance of a Royal Commission making a great discovery is very slight." We are, therefore, at a loss to understand what practical good can result from the proposed inquiry. On one point there is no room for doubt, that is—that the Stock Exchange has nothing to fear from the most searching investigation. Like other associations or professions, not excepting the legal or clerical, it may possibly reckon among its members some whose opinions as to the mode of conducting business are somewhat elastic in their application; but, taken as a body, the inquiries of the Royal Commissioners

can have no other result than that of establishing the fact that it discharges in a most successful manner the work for which it has been established, which is neither more nor less than that of the buying and selling of stocks and shares. With respect to these duties the *Times* very properly says:—

"In the present case the danger of the appointment of a Royal Commission is that it may strengthen the false idea that the Stock Exchange is a body offering some guarantee of the character of the securities bought and sold by its members, and therefore found in default when these securities are discovered to be unsound. No committee of brokers could execute the functions thus suggested; and any procedure of Parliament tending to propagate the belief that the Stock Exchange does discharge them is impolitic. We must rely on individual judgment and the remedies of the law for the punishment of fraud; and we deprecate too sanguine expectations of a cure from the roving commission the Government have granted."

NOTE TO PAGE 44.

The Greeks, buoyed up with the hope of having a fleet capable of contending with Ibrahim Pasha, had just reason to complain of the treatment they had received; two millions had been raised, and expended by other hands than their own, and the knowledge of so vast an amount of plunder and peculation in which they might reasonably have claimed a right to share, only added fuel to their burning wrath. A storm of indignation was raised, Mr. Hume and the "scholar and linguist" were openly accused of serious offences. An investigation was demanded, when it was discovered that the first million was swallowed up in expenses incurred, and only about one-tenth was said to have gone to Greece. The Greek deputies received enormous allowances, and Mr. Hume, who did not attend the committees, had £10,000 assigned to him of the first loan, and when the price fell to 16 per cent, his love for Greece visibly waned. After much unseemly controversy, the stock in his name was taken back at 13 per cent discount, by which he saved £300 out of the £1,600 he lost. Soon after, however, the stock rose again to par. This gentleman, whose favour must be retained at any cost, applied for and obtained the £1,300, a little while ago insisted on giving back. Not content with this great concession to one of the friends of Greece, he again applied for and obtained after a hard fight, the £54 interest that accrued between the time of his giving back the shares, and taking them again. Mr. J. Bowring, scholar and linguist, took £25,000 of stock at 59 per cent. When it fell he was loud in his declarations of the services he had rendered to the same, and being terrified at the fall to a discount of 18 per cent, he implored them to let him off at 10 per cent. When it rose to par, he applied to have his scrip returned, and when reminded that he was no longer entitled to the money, he said, on seeing his letters on the subject produced, that he had forgotten the circumstances so vividly recorded in his own handwriting. Again he wrote, this time saying, "I hope we shall see the loan rise to a good price, for the benefit of everybody, as the difference to me is a serious one, and to the Greek Government of little importance. I hope you will oblige me by allowing the return of the £25,000 scrip." To Mr. J. Bowring, "scholar and linguist," was confided the construction of a balance-sheet for the first loan, and whatever may have been his object in issuing the financial statement which he put forth, it had no other effect than that of strengthening public opinion, already strongly imbued with a just sense of the folly, incapacity and even want of honesty, of some if not the majority of the presumed distinguished friends of the afflicted Hellenes.—"Sketches of the History of the Stock Exchange," by J. H. Lamprey, *Railway News*, Sept. 23, 1876.

HOUSE OF COMMONS.—TUESDAY, MARCH 20.

(Reprinted from the TIMES, March 21st.)

THE LONDON STOCK EXCHANGE.

M. R. R. YORKE, on rising to move the resolution which stood in his name, said the question was one of great perplexity and difficulty, the difficulty arising not so much from the paucity of materials, but from an *embarras de richesses*. If a body chose to go into detail upon all the scandals at the time of the Foreign Loans Committee, the speeches might be endless. It was not, however, his intention to do more than he could help in blunting individuals. The object of his motion was to attack the system, or, at any rate, to show that the system under which the Stock Exchange was now managed was not conducive to the interests of the public, that, as was said by one of the witnesses before the Commission, a kind of original sin attached more or less to all those who took part in its proceedings, and that until some radical reformation occurred, there was no hope of a better state of things. As many members had told him they were utterly ignorant of the Stock Exchange, perhaps he might be allowed to give a brief sketch of its origin, objects, and present constitution. Stock-brokering was not a very ancient trade. In this country it was about 200 years old. In 1728, Sir Robert Walpole passed an Act which showed the prescience of the great statesman by forbidding any subject of His Majesty to subscribe to foreign loans without a licence under the Privy Seal. If Sir R. Walpole could have seen what happened 150 years later, he would have been pleased at the results which ensued when his Act was allowed to fall into desuetude. Stock-brokering dated from the incorporation of the Bank of England and the beginning of our Funded Debt. It was not, however, till about forty years ago that the business assumed the gigantic proportions of to-day, through the invention of railways. Foreign loans and joint-stock enterprise had swollen this business still further; and two years ago the nominal value of the stocks and shares quoted on the Stock Exchange was computed in "Penn on the Funds" at no less than £4,550,000,000. It was now, he believed, much larger, and the daily official list included over 1,300 classes of securities. Such was the magnitude of the interests with which the Stock Exchange dealt, and the public were entirely dependent upon the members of that body for the opportunities they had of buying and selling in such investments. As to the objects of the Stock Exchange, that place was, primarily, nothing more than a convenient place where brokers might meet for transacting their business. It had now not only become a market for buying and selling, but was the only centre in which the peculiar kind of securities there dealt in could be called into being. The Stock Exchange stood in much the same relation to incorporated enterprise as a bank stood in towards a trader; and a broker performed double functions—first, towards the promoters of a scheme, and, secondly, as an agent for clients. There were 2,045 members of the Stock Exchange, of whom three-eighths were dealers, and the remaining five-eighths brokers. Each dealer, as a rule, confined himself to a particular class of securities, standing prepared "to make a price," as it is termed, the margin between the price at which he was prepared to sell and that at which he was prepared to buy being his profit. This margin varied upon different kinds of securities, and was greater or less, according as the market happened to be more or less unsettled. He had been informed that recently, within a few days the margin had varied no less than 2 per cent. The settlement of all transactions was fortnightly, except Consols, which were monthly. No less than five-sixths of the whole business of the

Stock Exchange were time bargains, and, therefore, opposed to its legitimate business. But for the machinery of the Stock Exchange, no doubt, brokers would have to hunt for customers, and it would be more difficult to fix his own price, and sometimes, in small transactions, it was possible that there would be collusion between the dealer and broker, and the public would be the victims. In justice to the Committee he must say their operations were directed to prevent this being done, but it was exceedingly difficult to provide against it. With regard to the constitution of the Governing Body, it consisted simply of a Committee of thirty, annually elected by ballot, on the 20th of March, curiously enough the day on which he had the honour of addressing the House. This body had absolute power of reprimanding, suspending, and expelling any member by a majority of two-thirds in a Committee with a quorum of 12. Its powers were employed in dealing with mock bargains, the treatment of bankrupt members, and so on. It might be said to be an *imperium in imperio*, with powers stronger, perhaps, than any similar body except Tattersalls. They were governed by a code of 172 rules. The hon. gentleman then read the opinion of the Committee on Foreign Loans, as to the character of the Stock Exchange Committee, in which, among other things, it was stated that any attempt to enforce rules distasteful to the majority would be vain, and that such a body was not fit for the exercise of judicial functions. In one branch of its jurisdiction the Committee appeared to have come into collision with the laws of this country. He had stated that the treatment of bankrupt members was included in the powers of the Committee. They actually appointed official assignees, who received the assets and divided them among the Stock Exchange creditors as if the Stock Exchange was a world in itself and had no connexion with the outer world. In the case of a Mr. Cooke it had been suggested to divide his assets among the members of the Stock Exchange, ignoring the world outside; but Mr. Registrar Pepys decided against that course, and the Lords Justices confirmed his decision, Lord Justice James remarking that the Stock Exchange was not an Alsatia, and that the Stock Exchange creditor was to be put on an equal footing with the other creditors and to be entitled to no other favour. That was one case in which the rules of the Stock Exchange had come into collision with public policy, and there were other cases also in which those rules might be set aside. Another objection was that, having to determine as to special settlements, the members of the Committee, jobbers and brokers themselves, had to act in a judicial capacity in matters in which their own interest was often concerned. In the case of the Confederate Loan, all transactions were made and completed between the public and the dealers, who fixed the settlements themselves. The Stock Exchange was also a joint-stock company; it was not registered, but the building belonged to the members; they subscribed and made profits and partook of those profits as shareholders. New members were admitted very loosely and on much less difficult terms than on some of the provincial Exchanges—that of Liverpool, for example, where a man was required to deposit a considerable sum of money, that crippled speculation and tended to secure a respectable class of members. But that was not the case in London. The entrance money had been £25, the annual subscription £2 10s., and three securities of £300 each; but within a year the entrance money had been raised to £100, the subscription to £20, and securities to £750 each. The house was haunted by adventurers—Jews, Greeks, and so on—while persons of bankrupt fortunes who had failed on the Turf and in business crowded about the doors and communicated with kindred spirits within. Hence it had been freely cauassed among those who felt the discredit of this state of things whether it would not be better if the Stock Exchange should be abolished and all privileges taken from the stockbroking trade. If such a misfortune should overtake them, they would have deserved it for attempting two incompatible things—to provide for the interests of the public,

and try to make gambling profits for themselves. There was one object on which had been more frequently made than any other since he had taken this matter in hand. When he stated that he was going to move for a Commission, a gentleman said to him, "What do you want to do? It is a private undertaking." His reply to this objection would be that by rule 10 the business of the Committee was divided into two classes, the second of which dealt with "the investigation of claims and other matters relating to the interests of members, and of the public." As long as these persons confined themselves to their own affairs the objection he had mentioned was valid; but they admitted in their own rules that they were charged with the interests of the public, and they had special meetings for considering those interests. If, by their own showing, they had to deal with matters of public policy they could be dealt with by the Legislature in such a manner as public policy might dictate. These people had a virtual monopoly of the power of enabling me to buy and sell shares. Practically other monopolies, such as railways and gas companies, were subject to special regulations in the interest of the public; and the Stock Exchange being, on their own showing, in the interest of the public, ought, as a matter of public policy, to be subject to rules in the interest of the public. As at present constituted, the Stock Exchange was the most perfect organization for speculation, owing to the relations existing between the jobbers and the brokers. Possession on neither side was requisite, insomuch as delivery of the stock was unnecessary. The whole bargain might be fictitious. The jobber bought and sold to secure to himself the turn of the market; the broker tempted the public to invest to obtain his commission. There might be collusion between the two; he argued there often was, when the public was victimized. He might quote a single instance which had acquired notoriety—with respect to the Lisbon tramways. Even after the evidence given by Albert Grant, when the shares appeared to be worthless, the company's broker came forward and said that in the interest of the Stock Exchange the scheme must be allowed to go on, that as a settling day had been appointed, the brokers and dealers must not lose their commission, and therefore, the swindle must proceed. (Hear, hear.) No doubt the Stock Exchange contained many worthy and honourable men, who felt indignant and injured by the reputation it had acquired during the last few years. He believed that five-sixths of the Stock Exchange speculation consisted of things, done by some and endorsed by others, which involved an immense amount of moral obliquity. Their circulation of false rumours—the word of an Emperor or the rumour of a famine—to raise or depress the market, not only raised or depressed particular stocks, but the whole market going together, and sound stocks were often depressed by rumours started to influence some stocks in which the broker was deeply interested. He would now proceed to suggest some remedies. The Stock Exchange professed to regulate speculation which was admitted to be inevitable.—Did it do so? In rules 124 and 125 the Stock Exchange stated on what terms they would admit the scrip of a new loan to have a special settling day. The Chairman, in his evidence before the Foreign Loans Committee, stated that the mere statement of the contractors formerly was taken, but that was now supplemented by a statutory declaration without inquiries into the *bond fides* of the scheme, unless fraud were patent on the proceedings. A "settling day" gave a certain *status* to an undertaking which it had not before. The Foreign Loans Committee in their Report considered that these regulations were insufficient, yet they did not recommend the registration of foreign loans, considering that such a measure would rather furnish weapons for litigation than security against fraud. They required certain things to be stated, such as authority from the borrowing State, its public debt, and its revenue during the three preceding years, on what the proposed loan was to be secured, prior charges, &c. And he might add—what was, perhaps, required as much as any of these—they recommended as a statutory declaration the

prices at which the loan was issued and the difference between that price and what was paid to the contractor. There were good loans which were founded on the credit of large countries, such as France and America, and there were those of smaller States, which depended on the industrial enterprise the loan was to carry out. The Stock Exchange professed to regulate speculation. Could it be said that it did so? He contended, in the first place, that it encouraged speculation by admitting a low class of members with small security. Secondly, many members of the Committee were jobbers or brokers, some of them interested in the enterprises brought before them, and in many they had to decide judicially, and they were, therefore, tempted by their previous position to shut their eyes to fraud. Thirdly, their rules and requirements before granting a settlement and quotation were insufficient to insure the *bond fides* of a scheme. Fourthly, they did not seem to appreciate the evils of the system and were not fertile in resources in devising remedies. Fifthly, the situation was virtually now what it was. When the Foreign Loans Committee reported, they offered a variety of suggestions, only one of which had been carried into effect. The question was, could anything more be done? He wished to point out the extent of the evil which had followed upon the imperfect security for the *bond fides* of the ventures introduced upon the Stock Exchange. The total amount of unredeemed foreign debt was now 2,427 millions, of which, a very competent person assured him, no less than one-third was held in England. The interest upon this debt was £39,750,000. The seventeen principal defaulting States had an unredeemed debt of 297 millions, of which more than one-half was held in England, and the interest upon this debt was thirty-eight millions. The committee said that the principal cause of these evils, in comparison with which all others sank into insignificance, was the practice of quotation before allotment. As an example of the way in which these things were managed, he referred to the history of a loan for the Republic of Uruguay in 1874. An original loan of £3,500,000 had been placed in this country in 1871. A well-known house stipulated for an additional commission of 1½ per cent. on the new loan, amounting to £87,000, so as to facilitate the placing of the new loan, which was for £5,800,000. The scheme did not succeed, and through a timely warning the amount named was saved to the British public. To show the cynical indifference of the London house to the interests of the British public, he quoted a letter from its agent to the Finance Minister of Uruguay, which was read before the Representative Assembly. Mr. Scott, one of the witnesses before the committee, said he considered the present machinery was not sufficient to detect fraud, and he contended that it was not the business of the Committee of the Stock Exchange to inquire into the matter. Like the priest and the Levite, they passed by the sufferer, who waited for the coming of a good Samaritan out of the Commission now moved for. Mr. Scott saw great evil in the system, but he could not initiate a process by which it could be remedied. The Committee of the Stock Exchange stated in a memorandum that in 1864 they were impressed with the objectionable proceedings of directors and others, who refused to recognize bargains on shares made before allotment; but the restriction which they then imposed broke down in 1865 under the persistent determination of the public to engage in such transactions. The whole question was beset with difficulty when it was necessary to discriminate between one loan and another, and the Committee quoted the French indecency loan as an apt illustration of the inefficiency and inexpediency of interference, and they deprecated legislation in this direction as it was possible that any advantage would be more than counterbalanced by the mischief arising from interruption with the free course of business. This opinion was expressed in an eloquent passage of the memorandum, and the indefensibility of bargains appeared to be a kind of idol with the Stock Exchange. If that doctrine were given up, the members seemed to think that all enterprise in the way of foreign loans would be driven out of this country. He would say, let them go if they

required to be placed on the market with such machiinations as were described before the committee. It was impossible to say where enterprise ended and speculation began, and, therefore, these transactions should be carried out in the light of day, and without artificial impediments calculated to mislead helpless investors. He had left the question of joint-stock enterprise until the conclusion of his speech, because, upon the whole, the law had proved adequate to deal with abuses. By the 38th section of the Act of 1807, for example, it was provided that the directors should be liable for all fraudulent statements made in any contract between them and the public. The Foreign Loans Committee suggested that the law on foreign loans should either be assimilated to the law which regulated joint-stock companies, or else that the Stock Exchange should be thrown open for purposes of official settlement and quotation to all enterprises alike, so that they might stand or fall without official interference. To conclude, he asked for a Commission to take up the work so well begun by the Foreign Loans Committee, which gave the House a volume of facts, from which honourable members could draw their own inferences. He believed that a mixed Commission would be a better body for such an inquiry than a Committee of that House. They would import into the question the evidence of industrial, financial, and commercial authorities, who would bring a wide and special experience to bear on this subject. No doubt there were many members of that House well qualified to take part in such an investigation, but they would not give the same continuous attention to the subject as a Commission. There were hopeful signs in the Stock Exchange itself, and a great change had occurred since the Foreign Loans Committee had reported. The case of Mr. Sturdy last year, for example, had led to the resignation of Mr. Ingall, a member of the Committee, who had been re-elected by a large majority against the candidate of Mr. de Zoet and the Stock Exchange Committee. This led to the resignation of the chairman and the Committee en masse and the reconstitution of the Committee. He would by no means assert that the members of the London Stock Exchange were all corrupt, and that there were no honest men among them. He knew, on the contrary, that there was an honest reforming element which was willing to co-operate with any Commission that might be appointed by that House, and which was ready to give the benefit of special knowledge and experience to the investigation. If it were said that he had no policy, he would reply that this was the reason why he asked for a Commission. If he had been prepared with a policy he should not have asked for a Commission; but it was because the evils of the present system were gross, open, and palpable, and because the remedy was not beyond the reach of Parliament, that he asked for a Commission. (Hear.) His object was not so much the rehabilitation of the Stock Exchange as the protection of large numbers of unsuspecting persons from the sources of wicked and deceitful men. At present the London Stock Exchange almost realized the description given by the Roman poet of the labyrinth of Crete:—

"Ut quondam Crèta fætus labyrinthus in altâ
"Pariteribus textum cecis iter, ancipitemque
"Mille viis habuisse dolum quâ signa sequendi
"Fallere indepresus et irremebilis ero."

The Athenians paid an annual tribute of blood to the Minotaur, and we had paid an annual tribute to the Stock Exchange of ruin, tears, and broken fortunes. He trusted that if the Government should grant this Commission it would form a modern Theseus who would aise and destroy the monster, and it was in that hope that he moved the resolution of which he had given notice. (Cheers.) The hon. member concluded by moving:—

"That an humble address be presented to Her Majesty, praying that Her Majesty will be graciously pleased to issue a Royal Commission to inquire into the origin, objects, present constitution, customs, and usages of the London

Stock Exchange, and the mode of transacting business in and in connection with that institution; and whether such existing rules, customs, and mode of conducting business are in accordance with the principles that should govern public policy, and if not, to advise Her Majesty in what respect they might be beneficially altered, and how far legislation might be usefully employed for that purpose."

Sir C. RUSSELL, in seconding the resolution, said that, as a member of the Committee on Foreign Loans, he had taken great interest in this subject. He would not go over the ground so well occupied by his hon. friend, but he wished to call attention to the magnitude of the losses sustained by the British public. There were twenty-one defaulting States, which had raised loans amounting to £305,000,000 sterling, and the interest of which amounted to £40,000,000 sterling. There must also be added to these losses the bubble companies floated on, he did not say by, the Stock Exchange. Mr. de Zoet, the Chairman of the Stock Exchange, when examined before the Foreign Loans Committee, at first stated that if the Stock Exchange Committee made a searching examination in each case they would never get through the business, and that he did not see that the Committee could operate in the direction required by the Committee on Foreign Loans. A little later, Mr. de Zoet, being again examined, said it would, no doubt, be incumbent upon the Committee to see if anything could be done to improve the law and practice, but that any rules in the direction of restriction would be so opposed to the principles on which public business was conducted that they would be likely to fail. Mr. Scott, the Chairman-Elect of the London Stock Exchange, gave admirable evidence before the Committee on Foreign Loans, but when asked by Sir H. James whether there was anything in their machinery sufficient to detect fraud, he replied, "There is nothing in our rules to enable us to do so." Mr. Lionel Cohen, another witness, spoke to the exceeding sensitiveness of the Stock Exchange as to evil practices among its members, and thought that the Committee might modify their rules to some extent. Another important member thought that many of their rules might be improved upon. Another thought it absolutely necessary that something should be done, and there was reason to believe that if the Stock Exchange Committee replied with a *non possumus* public opinion would force them to do it. It was finally recommended that the providing of a remedy for the evils in question should be left to the Stock Exchange itself. Now, had the Stock Exchange taken any steps, by the remodelling of their rules or otherwise, to give any sensible protection to the public? (Hear, hear.) The inquiry took place in 1875, and surely if they had intended to provide a remedy they would have done so by this time, more especially as during the past two years their ordinary business had been immensely crippled. He had no *animus* against the Stock Exchange. On the contrary, he believed that it did its enormous mass of work, which not uncommonly amounted to fifty or sixty millions on a settling day, as cheaply, expeditiously, and accurately as any similar institution in the world. It would, therefore, be fool-hardy for his hon. friend or himself to ask the House to take any steps which might jeopardize the true interests and upset the working arrangements of the Stock Exchange, but all they applied for was an inquiry with the object of providing due protection for the public. (Hear, hear.) The power of this institution for good as well as evil was enormous, and there could be no better instance of that than the fact that the Russian loan of 1855 collapsed because the Stock Exchange did not recognize it. Writing to the Committee of 1875, the secretary to the Honduras Legation said that in such cases as they were dealing with the failure fell with equal force on all concerned. It was, he added, a kind of original sin which affected even the most innocent. The Committee adopted that view, and blamed certain parties—namely, the contractors—for their share in those undertakings. It was supposed that those loans were concocted on the Stock Exchange; but, as a matter of fact, they were concocted outside, and the only matter for which the

Stock Exchange could be blamed was the facilities they afforded to the contractors. (Hear, hear.) Now, who were those contractors? They were a body of men who, in the days of plain speaking would have been called swindlers. (Hear, hear.) A few years ago they would not have been allowed to put their foot within the pale of respectable society, but nowadays respectable society not only tolerated, but loaded them (hear)—and enabled them to carry on those sinister practices by which honorable men were ruined or disgraced. It was the Stock Exchange, however, which, in his opinion, was chiefly responsible for the mischievous power which those contractors were able to exercise. The Committee further blamed the public, and they blamed them for their cupidity and their stupidity. (Laughter.) Now he had great sympathy with the public. He was one of them himself (unwaxed laughter), and he would just give one instance showing how they were victimized. Among the letters received by members of the Committee was one from a respectable land agent residing in London, who after twenty-two years of hard work had amassed five or six thousand pounds. This money, which was the only provision he had for his wife and children, was invested in a certain joint-stock bank, but a clerk persuaded him to re-invest it in the Honduras Loan, and the result was, of course, that he lost every shilling. (Hear, hear.) Now, what induced the clerk to advise that poor man to take so disastrous a step? It was the iniquitous, scandalous commission which the contractors were enabled to offer him. The enormous difference between the sum received by the borrowing State and that which the public subscribed enabled those swindlers to pay unheard-of commission to those who were unprincipled enough to aid them. But there was still another body which, in his opinion, merited some blame, and that was the Press. (Hear, hear.) There had been trials before the Courts which, he was sorry to say, had shown that certain public organs exercising great influence for good or evil had given to those schemes an amount of publicity which without their aid could never have been attained. After all, it might be said, what was the use of an inquiry? Was not a sufficient remedy provided by the courts of law? It was only adding insult to injury to tell a poor wretch who had lost his last farthing that he ought to go to law with a millionaire, who would fight him, perhaps, with his own money. (Hear, hear.) The costs in such cases were ruinous. A solicitor whom he consulted some time ago told him that in a certain suit they would probably amount to £2,000, and that a decision would probably be arrived at within less than two years. It appeared, moreover, that, in the majority of cases, no remedy even existed. According to an article in the *Westminster Review*, if a man obtained a bond direct from a contractor, he could in the event of fraud being established, obtain legal redress; but if, on the other hand, he purchased his bond in the market he was helpless. The *Westminster Review* suggested that the holders of market bonds should be placed on the same footing as persons who had obtained their bonds direct from the contractor. For himself, he thought that the whole question, involving as it did the interests alike of the Stock Exchange and the public, ought to be fairly and fully investigated. He might be told that he wished for Government interference. He wished for nothing of the kind. He believed that once the rules of the Stock Exchange were properly remodelled and a proper understanding arrived at, the less Government interference the better. At Paris he knew it was different. When one of the swindling fraternity attempted some time ago to float a loan on the Bourse a policeman appeared on the scene, and the loan was heard of no more. (Laughter.) Sometimes a remedy was effective without being complete. He remembered a case in point which came under his notice at Windsor. One day he saw Her Majesty's coachman strongly rebuking a Skye terrier the wrong way, and asked him why he did so. "Oh," said the coachman, "it's for the fleas." "But that won't kill them, but it frightens them amazingly." (Loud laughter.) Now, if even they went no further in

the case of the negotiations of loans and similar enterprises than the coachman did in the case of the fleas, they would probably do no little good. (Hear, hear.) In conclusion he hoped the House would believe that he had been actuated by the sincere desire to help right against wrong—the weak against the strong—and also, in however humble a way, by an endeavour to make monetary transactions in this country more creditable to the honour of the nation. (Hear, hear.)

The question having been put,

Mr. ALDERMAN COTTON said he wished that the few words he had to say could have come from those who had much greater experience of the Stock Exchange than he had. He rose simply in the hope of preventing a too great evil being done by the starting of the proposed Royal Commission. The mover and seconder of that proposal had both stated that, in asking for that Royal Commission, they had no remedy to suggest. That was one of his strongest arguments against the motion, because if they had no remedy in this time of commercial gloom and depression, he hoped they would not attempt to upset the Stock Exchange as at present constituted. With all its faults and blemishes, he held the Stock Exchange to be a necessity. They could not get on without it. They might remodel the present Stock Exchange and have another; but a Stock Exchange was one of the necessities of the times. They wanted it for the man who simply had to invest his money as much as for the speculator. Speculation was innate in them all. They saw it in the young in their more innocent games; they found it also in manhood when they entered into the larger domain of speculation. Speculation was simply the act of one or more men to win the money of others (a laugh), and the loser was generally a disappointed and an angry man. He believed that the attack made that evening on the Stock Exchange Committee arose from the fact that a very large number of men had lost large sums of money through no other fault than their own. They might have been hoaxed by the clerk of a bank or misled by a Friend or by the Press, but there was no doubt that every man who entered into speculation or who purchased stock or shares did it, or ought to do it, after having well weighed the whole of the facts before him. But sometimes speculation ran riot, and, perhaps, for a space of one or two years, as during the period of limited liability, every man made money, the shares of every company which was brought out rapidly rose to a premium, but it was not until two years had passed and the tide had turned that men began to lose money. If he could only shut out those who had lost money through their own fault, and not from the action of the Stock Exchange, he believed he should have done something towards inducing the House not to adopt that motion. Let him take the present constitution of the Stock Exchange, and ask whether it was possible to make a better one. There were nine managers, and below them a Committee of thirty members. Those members were annually elected, and any want of confidence in any one of them, or any breach of his respectability, would lead to his being expelled at the next election. The Stock Exchange comprised 2,000 members, and 1,100 clerks. The Committee had passed 172 rules and regulations for the guidance of the members of the Stock Exchange and of the public generally. The Book was entered at Stationers' Hall, and could be obtained by any one who might really require it. The Stock Exchange was also open to the censorship of the Press—a very potent engine, and one quite sufficient to keep a check on any governing body; and it was also open to the Law Courts—places to which, whatever they might say or whatever Royal Commission they might have—they would always have to go for the remedy of any abuse to which they thought themselves subjected. They could not accuse the Stock Exchange of being guilty of the repudiation of a Turkish Loan, or of a Honduras Loan, or for the depreciated value of the Egyptian Debt. The constitution of the Stock Exchange was not responsible for the introduction of any company, whatever. It was not until two-thirds of the shares had been subscribed, paid

far, and taken up, that the Stock Exchange allowed a company to take a place on the Shares List, and to be quoted to the public. It was the public alone who moved and instigated all those things; and companies which were excluded from quotation on the Stock Exchange were left in a very unhappy position, because, as a rule, the holders of stocks or shares in companies that were not so certified had no market for them, and if the owners died their families did not know how to dispose of the stocks or shares in those un-certified companies. Again, the Stock Exchange was, perhaps, the only Tribunal of Commerce we had in this country. On the Continent Tribunals of Commerce were very common indeed, and we had serious agitations to introduce them here. The Stock Exchange embraced in a great degree the representation of a Tribunal of Commerce. It ruled and regulated the whole of its members, and it punished by expulsion any man who gravely offended. He believed that the Committee of the Stock Exchange was exceedingly anxious to protect the public, if the public would but protect itself. The public was an extremely difficult creature to manage (a laugh), and he did not believe that any Royal Commission would be able to keep him in check when he was desirous of running riot. He did not know personally whether the Stock Exchange itself would object to a Royal Commission; but he thought it would be exceedingly ineptile to entertain the idea for a moment or for the House to adopt it. That was not a Party question, and he hoped it would not be a question of prejudice. He hoped that hon. members would not vote for that motion simply because they had lost money in an unfortunate speculation, and also that hon. members who had made money would support him in his opposition to it. (Laughter.) But he was afraid that if that motion were carried it would throw a still greater gloom, not only through the United Kingdom, but over all the countries of Europe where financial and commercial depression prevailed very seriously. In conclusion, he trusted that those whose experience of the Stock Exchange was not so very limited as his had been, and who knew better than he did how honourable and upright it was as far as its constitution went, would rise and address the House on that subject.

Sir E. WATKIN hoped the House would agree to the motion, which, so far from spreading the gloom to which the last speaker had referred, would, he thought, inspire great confidence. What, he asked, was the Stock Exchange but a great Trades Union? and, as the House had inquired into the operation of many other Trades Unions, why should it not inquire into that one? Those who originated the many disastrous transactions which had been alluded to had appealed to the public through the Stock Exchange, and there had resulted the loss of, probably, between two and three hundred millions of money during the last seven or eight years. Was not the effect of a striking fact like that upon the industry and commerce of the country a sufficient ground for inquiry? The institution now in question dealt with hundreds of millions of securities, and it had sanctioned some of the greatest abominations, perhaps, which had ever been perpetrated, and which had ruined thousands of unprotected people whom it ought to have protected. If the character and proceedings of the Stock Exchange were so correct and so honourable as the last speaker asserted, what had they to fear from a Royal Commission? Surely they would come out from such an investigation as silver purified by the fire and with enhanced lustre. (A laugh.) He therefore hoped that the Government would not flinch from what he deemed to be their duty—namely, to grant the proposed inquiry.

Mr. E. STANHOPE did not think that the evils of the Stock Exchange and its rules could have been put more moderately before the House than they had been put by his hon. friend who introduced this motion; but he should like to point out to the House that there was another aspect of the Stock Exchange of which the Foreign Loans Committee had experience, and that was the good business that was being done by the Stock Exchange. The amount of good business done on the Stock Exchange was out of all proportion to those smaller

affairs with regard to which its conduct had been criticised. The hon. and gallant member for Westminister seemed to have introduced several matters which went a great deal beyond the scope of the proposed inquiry. He pointed out the great evils which he said existed with respect to manipulations by contractors, and by other persons outside the Stock Exchange, but to base an inquiry into the Stock Exchange upon a statement of that sort seemed to be going rather farther than might have been expected. He (Mr. E. Stanhope) thought the evils of the rules of the Stock Exchange were abundantly clear. His hon. friend said they were clear. Why, then, did he want further inquiry into that matter? He might have said no doubt there were certain fields not inquired into, as, for instance, the Joint Stock Companies; but he expressly excluded those, and limited his speech to the case of foreign loans. Two years ago the House thought fit to inquire into that. The Foreign Loans Committee sat for the greater part of the Session. They examined all the most important members of the Stock Exchange and a great many other witnesses on the subject, and they tried, as he could personally testify, to find a remedy for dealing with the evils of the Stock Exchange; but what was the result? They found that there had existed in the public mind a sort of idea that an insertion of shares and stocks in the official list of the Stock Exchange gave a sort of certificate of them, that the public believed that there had been an investigation by the Stock Exchange before they allowed a quotation of shares and stocks; but evidence given before the Committee abundantly showed that the public were altogether mistaken on those points. The Committee found that the Stock Exchange was of opinion that its main function was to facilitate business; and he was bound to say that he believed there was no country in the world in which legitimate business was transacted with such facility, and such certainty and convenience to all parties, as upon the London Stock Exchange. It appeared from the evidence that the Stock Exchange, so far from giving protection to the public, left the public to make investigations for themselves. He thought that above all the great lesson of the inquiry by the Committee was this—that the public could not rely upon the rules of the Stock Exchange or of any public body, but must rely solely upon themselves. He was quite certain that if a Royal Commission were appointed they would have a good deal of interesting evidence and a good deal of evidence which would be painful to read, but whether they would have anything new or anything which might assist them in the least in this matter was a question, he thought, which the House must seriously consider. If they were to begin with an inquiry into the Stock Exchange, where were they to stop? Was what was called rigging the market confined to the Stock Exchange? Was there no rigging of the market in the corn trade, the sugar trade, and the cotton trade? Was there not gambling elsewhere than on the Stock Exchange? (Hear.) He thought if they were going to make out a case with respect to gambling, there might be some reason for inquiring whether or not Lloyd's should not come under the consideration of a Commission or a Committee. Then he came to the remedies which his hon. friend proposed. That subject was very conclusively dealt with by the Foreign Loans Committee. They said in their report that the Stock Exchange could hardly be interfered with by Parliament without losing that freedom which was the life and soul of business. (Clear.) The Stock Exchange might be justified on more than one ground, but his hon. friend attempted to justify it upon one ground only, and that was of its being a protector of the public. Now had they thought whether that proposition was not liable to the objection he had already urged against making the public rely upon rules of the Stock Exchange and not upon themselves? (Hear.) He understood it had been suggested that a commission should be appointed which was to frame rules for the Stock Exchange. How were those rules to be enforced? (Hear, hear.) If they were not going to enforce those rules what chance was there of their being adopted by the Stock Exchange? As far as regarded the inquiry before the

Foreign Loans Committee they had not much hope that the Stock Exchange would adopt any steps for reforming the rules to which the Committee objected. But since that time he was bound to say circumstances had so much changed, and lately he had heard that the Stock Exchange had been busily set to work to see whether its rules ought to be altered. If a Commission was to frame rules for the Stock Exchange, were those rules to remain always the rules of the Stock Exchange, or who was to be the authority that would afterwards revise them? If some department of the Government were entrusted with the certifying of the rules of the Stock Exchange, that would lead to constant appeals to the Government to enforce the rules, and there would be precisely the same evils as had been hitherto complained of—that was to say, evils arising from the public relying on somebody else instead of upon themselves. He did not think his hon. friends had shown any conclusive reason for the inquiry. In these matters, he believed, we must mainly rely upon the force of public opinion. (Cheers.)

SIR H. JAMES fully appreciated the good work which the hon. and learned gentleman had done upon the Foreign Loans Committee, but could not admit that the labours of the Committee had left nothing more to be done. The result of the inquiries made by that Committee had been to expose to the public those great evils that were existing in relation to those loans, and the hon. and learned gentleman himself had admitted the existence of these evils to-night. But what were those evils? It had been proved that great frauds had been committed upon the public, that those frauds were not committed by the Stock Exchange, but that the Stock Exchange was the machinery by which they were carried into effect. When, therefore, it was alleged that the hon. and gallant member for Westminster had gone outside the subject to-night in referring to the acts of the contractors because they were not members of the Stock Exchange, it was forgotten that had the Stock Exchange not been in existence the work of the contractors would have been useless and without fruit. (Hear, hear.) It was simply because the Stock Exchange, who pretended to be the only protectors in such matters of the public interest, had neglected their duty, and thereby in a manner become parties to the fraud that had been committed, that the contractors were enabled to reap the harvest and obtain the benefits resulting from those frauds. (Hear, hear.) And how had it become possible for those frauds to be carried into effect? Their perpetration had been rendered possible in consequence of members of the Stock Exchange, who received thousands of pounds in return for their assistance, giving a certificate as to the respectability and the *bond fides* of the scheme without making the least inquiry into the sanguiney of these impious countries, who, in fact, never received the sums borrowed, the greater part of which went into the pockets of the contractors. It was by means of that certificate alone that the contractors were enabled to defraud the public. But what more did the members of the Stock Exchange do to further these frauds? Having given that essential certificate, they proceeded to appoint a "settling day" for these loans, and then they received orders from the contractors to make pretended sales and purchases of the scrip, so as to lead the public to believe that it was at a premium from 2½ to 3 per cent. Then it was that the public, believing that the Stock Exchange was a respectable body, and that they would not permit any improper dealings, purchased the scrip in their innocence and became victims of these frauds. The hon. member, therefore, would admit that under the present system great evils existed which by his nature would be the first to condemn. In the face of these admitted facts, was it to be said that it was impossible for that House to devise a remedy for those evils, and that nothing could be done to put a stop to them? In his opinion it was their duty to do their best to prevent a recurrence of similar proceedings in the future. (Hear, hear.) It might be said that they should leave the matter to the Stock Exchange, but for how long was it to be left to the Stock Exchange? They had had two years in which to devise a remedy for these evils, and, with the exception of some

minor alterations, their rules under which these frauds were concocted and perpetrated were exactly the same as they were in March, 1875. During the whole of that time, therefore, the Stock Exchange had done nothing to prevent a recurrence of the proceedings which every one agreed in censuring and condemning. It was, therefore, absolutely necessary that this House should take some step in the matter. It might be urged against this proposal that the Stock Exchange was a voluntary body, and that therefore the House had no right to inquire into its rules. He was, as a rule, inclined to agree with those who protested against too much paternal legislation, and objected to an undue interference with the internal relations of the different communities in this country; but that objection would not apply in the present case, because the Stock Exchange stood in a different position as regarded the public from that of any other community. True, it was a market, but it was a market to which the public were bound to go. If a man were left an executor under a will, and had to sell £50,000 in Consols in order to wind up the estate he was compelled to go to the Stock Exchange in order to realize the property; and when he was brought to the Stock Exchange he was not allowed to go upon it himself, but was obliged to employ an agent of their selecting, and was compelled to abide by the usages and rules of the institution, which were upheld and enforced by the law of the country, however unreasonable they might be. Their rules, therefore, must be treated as forming a part of the law of the land which it was the duty of the House to examine into. (Hear.) A large portion of the members of the Stock Exchange were honourable men who took no part in these transactions and who abhorred these proceedings, looking with disgust upon the wealth acquired by those who entered into them, and from them at all events no objection would be made to this proposal. Those honourable members would be the first to come forward and to give evidence on the subject, and would assist in devising a remedy for these evils, whether by insisting that the Stock Exchange regulations should have the approval of the Board of Trade or by other means he need not now stop to inquire. There was a good deal more that he could say upon this subject, but he would refrain from uttering it upon the present occasion. He hoped that this debate would be continued, and that it would result in some scheme being devised for the protection of the public. He could assure hon. members that he was influenced in his views on this subject, not from having been made a victim of these frauds, but from information he had obtained in the course of his professional career, which had convinced him that great and crying evils arising out of the proceedings which had been referred to existed. (Hear, hear.) In conclusion, he begged to assure the House that if this matter went to a division, he should give a most confident vote in favour of this proposal. (Hear, hear.)

MR. HUBBARD said that while the hon. and learned member who had just addressed the House had spoken at large upon what he deemed to be the evils which called for remedy, he had not mentioned one single rule of the Stock Exchange which operated in a manner calculated to work mischief or injury to the public. The hon. member had fallen into the error of supposing that the same person might, under the rules of the Stock Exchange, act as jobber as well as broker, and might, by combining the functions, defraud the public. As matter of fact, one of the rules of the Stock Exchange was directed expressly against the exercise of these dual functions by the same person, and therefore the evil which was suggested could have no existence. There could be no doubt that the evidence taken by the Foreign Loans Committee disclosed a vast amount of corrupt dealing in reference to foreign stocks, but the corruption was due to the promoters and introducers of such loans, and not to the Exchange on which the stocks were bought and sold. Objections had been made to time bargains in illegitimate transactions, but he ventured to express the opinion that great operations in dealing with the funds would be impossible if such bargains were rendered illegal. (Hear, hear.) He trusted

that the motion before the house would not be acceded to, for he was satisfied that it could do no good, and that the appointment of a Commission would only have the effect of depreciating credit in the public funds, which formed one source of our national strength, and in a body of men who in times of difficulty and trouble had maintained the public credit and character of this country. (Hear, hear.)

MR. NORWOOD supported the motion for inquiry on the ground that the Stock Exchange was a close body—a gigantic trades union in fact—which conducted its business in a way which laid it open to just and serious reprobation. The Government had passed Acts of Parliament dealing very stringently with the shipping and other commercial interests, and he saw no reason why inquiry should not be made as to the manner in which the traffic in stocks was conducted. While he admitted the fact that danger attended State interference with the conduct of trading transactions, he thought it scarcely proper for the representative of the Board of Trade, which had interferred with so many interests, to object to an inquiry of the kind which the House was asked to make.

MR. BENTINCK remarked that while the most important considerations in connection with the question had not been touched upon at all, the strongest arguments in favour of inquiry had fallen from hon. members who spoke in opposition to the motion. He admitted that the Stock Exchange was an indispensable necessity, but that was no reason that successive Governments should sanction the practice of wholesale gambling through its agency. The House was bound to draw a distinction between business and gambling, and he said that the practices to which reference had been made by his hon. friend constituted the most mischievous form of gambling known upon the earth. (Hear, hear.) Speculators, it was said, ought to be responsible for the consequences of their own acts, but if it was true—and it had been shown to be—that they had not fair play, a strong case had been made out for Government interference. But it was urged that such interference would cast a gloom over the parties which were the subject of it. So also would the capture of bandits in Calabria cast a gloom over banditti in Sicily. (A laugh.) But it would not, therefore, be regretted by honest people. Another argument used in opposition to the motion was that if the Committee were appointed, a great deal of distressing evidence would be adduced, but that was in his view an argument in favour of inquiry. His hon. friend the Secretary to the Board of Trade said that the fault lay with the class known as promoters, but was it not a fact that a fictitious value was too often given to loans and shares by the Stock Exchange? The practice of gambling in stocks was by courtesy called speculation, but in fact it was gambling, and that of the very worst description. In the preamble of Sir John Barnard's Act, to which reference had been made, and which Act made this a felony, such gambling was styled a wicked and destructive practice. It had not since lost that character, and he could not see on what ground the House and the Government could sanction it. (Hear, hear.)

THE CHANCELLOR OF THE EXCHEQUER said he gathered from the course of the debate that there existed a very strong, and, he was bound to say, not an unnatural feeling in favour of inquiry (hear, hear); and it was urged that, at all events, inquiry could do no harm. He felt bound to express his own opinion to the motion and the arguments which had been adduced in favour of it. The House, he thought, ought to consider with some care not only whether such an inquiry as that asked for would do no harm, but whether it was likely to do good; and he had observed that while very strong premises had been laid down in eloquent language—premises which were altogether undeniable in themselves—they had not been brought to support the conclusion which was aimed at. The hon. learned gentleman the member for Taunton began by stating that, although the frauds of which they were all sensible, and which were a scandal to the country, were not

committed by the Stock Exchange, but by persons outside of it, still it was through the machinery of the Stock Exchange that the frauds were committed. Well, it was not the only machinery by means of which frauds were committed. It might be said, for instance, that the Press was a machinery by which frauds were committed. Prospectuses, money articles, and other means of the same kind might be used for the commission of fraud. It was necessary to consider how far the machinery was responsible for the frauds that were committed by means of it. We would not do away with useful machinery merely because it might be misused. Now, what was it that hon. gentlemen who supported this motion were seeking to obtain? They proposed an inquiry into the origin and customs of the Stock Exchange. Well, that was a matter of interest. We knew a good deal about it already. We had learnt a good deal about the mode of conducting business in connection with that institution from the proceedings of the Foreign Loans Committee. Indeed, he thought we already knew, or could easily learn, all that need be known on that subject. There were the rules of the Stock Exchange, and the knowledge of them and of the other facts that had come to light seemed to him to make a Royal Commission unnecessary. Then as to the question as to whether those rules were in accordance with the principles which ought to govern public policy, and whether legislation might be usefully employed with reference to them, this would mean a very serious kind of inquiry. If, instead of sending out a mere roving Commission, they could in any way indicate the direction in which a remedy was to be looked for, he granted that the labours of the Commission might have some useful purpose. But he had observed that not only the mover and seconder, but even the hon. and learned gentleman opposite had altogether abstained from indicating the direction in which it was desirable to look for a remedy—(hear, hear)—and therefore he held that no answer whatever had been given to the doubts which had been so well expressed by the Secretary of the Board of Trade as to whether it was possible to find a remedy which would not do more harm than good. As to an inquiry, that was one thing; but as to the adoption of a remedy, it would require the most careful consideration on the part of Parliament whether any remedy which could be suggested would not do more harm than good. The evil which was alleged he understood to be this:—The Stock Exchange professed to be a very useful institution for the transaction of sound business, and, in order to keep business sound, its members laid down elaborate rules, which were obviously framed not for the purpose of promoting fraud, but for the purpose of preventing fraud. It turned out upon inquiry that those rules had somehow or other proved ineffectual to prevent a great many frauds, and that mischief had been done by the very excellence of the intention or avowed intention of the Stock Exchange. People had confidence in those rules, and not unnaturally thought that if an undertaking which was brought forward satisfied the requirements of those whose object was to prevent fraud, it might fairly be regarded as possessing a legitimate and safe character. In this manner unwaried persons were induced by their confidence in the Stock Exchange to look less carefully into the speculations which were set before them than under other circumstances they would do. Now, it was of course very sad that people should be misled by a misplaced trust in the Stock Exchange, and one would be glad in any possible way to prevent it. His hon. friend had said, and said truly, that the principal remedy must be in the greater caution of individuals, and in the publicity that was given to the errors into which the Stock Exchange had fallen, and the misuse that had been made of it; and it was undesirable that Parliament should do anything which might lead people to trust less to their own investigations and more to the rules of the Stock Exchange. If a remedy was attempted in the direction of interference from without, either on the part of Parliament or of some other public authority, with the view of making these rules better, the effect would certainly be to lead people to have more confidence in them than

ever. Under present circumstances a man might be warned by the disasters of the last few years, but if Parliament said to him, "We have now set all right; we have inquired into this matter by means of a Royal Commission and devised rules and given a controlling power to the Board of Trade or some other body," they would simply by increasing the very confidence which had hitherto caused so much evil. (Hear, hear.) In this way, unless they could effectually provide against fraud, they would do more harm than good. Of this, at all events, he was quite sure, that if they adopted the principle of making the Rules of the Stock Exchange subject to a public department, they would find themselves obliged by a similar process of reasoning to do the same thing with regard to other institutions. It was said there were fraudulent persons who made a bad use of the Stock Exchange. Now, could they attempt to deal with fraudulent use by any alteration of the rules? He thought not. Difficulties might be found in their way in one direction, but they would be sure to find some other way. All that could be done was to have as good a machinery as possible and stringent law for those who deliberately made a fraudulent use of it. There was another point to consider, and it seemed to him a most important one. He understood the hon. and learned gentleman opposite to say that the Courts of Law had recognized the rules of the Stock Exchange in certain cases.

Mr. H. JAMES explained that in all contract cases it was part of the agreement that the contract was subject to the rules of the Stock Exchange, and in these cases the rules were enforced by the Court.

The CHANCELLOR OF THE EXCHEQUER said that being so, if the rules were bad or mischievous, Parliament might legislate to correct them. He did not mean that they should deal with the rules as rules of the Stock Exchange, but that they might lay down the principles which would prevent and make illegal those things which were found to be bad in the rules of the Stock Exchange. He believed that was the only effectual way in which they could deal with the matter. If there was any given practice which was mischievous, and which was sanctioned by the rules of the Stock Exchange, and, being so sanctioned, was admitted to be valid by the Courts of Law, let Parliament legislate in such a way as to make that practice illegal, and that would be much better, he thought, than attempting to exercise a managing control over the rules. While he had thought it right in support of the observations of the Secretary of the Board of Trade to state these reasons for forbidding whether any good could come of the proposed inquiry, and in particular to put in his *caveat* with regard to any legislation which might be desired after the investigation, he must admit that there seemed to be a very strong wish for an inquiry and he saw no very great reason for resisting it. (Hear, hear.) Therefore, so far as he was concerned, he was not prepared to vote against the motion. At the same time, he did not believe any good would come of it, and he did believe it would be exceedingly necessary to be very careful indeed as to the mode in which Parliament dealt with the results of the inquiry.

Mr. LOWE pointed out that the Foreign Loans Committee, to which the right hon. gentleman had referred, had not made any direct inquiry into this subject, having merely picked up information on it by the way, while dealing with special matters intrusted to it. He also wished to remark—and perhaps it would give some relief to the mind of the right hon. gentleman—that even if they knew what they wanted to do in this matter, nothing would be more difficult than to do it—(hear, hear)—because the Stock Exchange was a voluntary institution; it was a Club; and if any member did anything displeasing to the majority of the Club, they turned him out, and by that means deprived him of his living. (Hear, hear.) It would therefore be necessary, if any legislation was proposed, to consider how it would be possible to manage so as not to be checkmated in that manner. This was a circumstance which made the case a special and peculiar one, which in his opinion required more consideration than the right hon. gentleman seemed to think necessary. Then, with regard to the Stock Exchange, what he found fault with was, not that it

was a place where people gambled—which he was afraid could not be avoided—but that it had even given facilities for some of the worst things that had occurred. The Stock Exchange were in the habit of allowing and receiving certificates and acting upon them too when they were perfectly well aware that loans had been got up in the fictitious manner which had been described before the committee. Not only that, but, as was shown in the course of the investigation, they had in the case of one loan broken their own rules in order to launch one of the most disreputable concerns that had ever been launched in the world. He did not wish that an inquiry should be instituted in any spirit of hostility to the Stock Exchange, but to prevent that happening in the future which had happened in the past, where the whole proceeding was a fraud and a deception on the public. But some persons would say, "Oh, let us require all sorts of evidence that things are properly done," while others were of opinion that it would be better to take the contrary course, and to deprive the Stock Exchange of any power of making quotations at all, so that everything might proceed entirely on its own merits, and the Stock Exchange be relieved from its judicial duties. But the question was, not merely what was to be done, but how it was to be done without interfering with those true functions of the Stock Exchange which he was anxious to preserve. In his opinion, a case had been made out for an inquiry of that kind. He did not think it would be a useless inquiry, and he had a very strong opinion as to the course which ought to be adopted. He believed, as he had already intimated, that the inquiry need not be instituted in any spirit of hostility. There were many persons connected with the Stock Exchange, Mr. Scott among others, whose name had been mentioned that evening, whose evidence as given before the Committee was in the highest degree creditable, and who he was sure would be found disposed to assist such an inquiry in every way. The problem to be solved, how to preserve the voluntary nature of such a society while keeping a proper check upon it—was one of a difficult and complicated nature, and one well worthy the efforts of some enlightened jurist. He did not despair of a solution of it, and he felt satisfied that if the matter was carefully and candidly considered with the assistance of such persons as he had alluded to, great good might result from such an inquiry. (Hear, hear.)

Mr. GOSCHEN wished to offer a few remarks on the subject, although it was patent in what direction the current of feeling in respect to it ran. In his opinion, notwithstanding the Chancellor of the Exchequer seemed to think that inquiry would do no harm, it would have the ill effect of establishing another precedent to show that Parliament, without the conviction that any good would be done, was ready to accede to proposals of the kind because of the feeling to which he referred. Two years ago ship-owners could scarcely raise their voice in that House because of a similar current of feeling against the class to which they belonged, and Parliament seemed to be acting now on the principle that to prevent some abuses ordinary business was to be interfered with, and that Committees and Commissions were to be set up as a kind of corrective police. The Chancellor of the Exchequer thought it was problematical whether any good would result from the inquiry, but did he not know that it would do harm by creating an impression on the public mind that Parliament by its action would be able to put down speculation and gambling? But had France, he would ask, been able to stop them? Was it not the fact that, although the French had legislated on the subject and laid down rules for their Stock Exchange, gambling had reached to an extent there to which it had never attained in this country? For his own part, he desired to express his conviction, quite irrespective of whether there were or were not questionable practices resorted to on the Stock Exchange, that it was undesirable to encourage in the public mind the notion that the Legislature could protect them. Any attempt to do that must, he believed, fail, and he regretted the Government should, as in the case of the Foreign Loans Com-

mittee, have yielded to a proposal which they at first opposed. He wished they had earlier in the evening made up their minds to resist the motion strongly, and so have avoided placing the House and the public in the position of knowing they were to have an inquiry from which they were at the same time warned no good results were to be expected. There would be no Division, and, therefore, the opinion of the House could not be tested; but the fact remained that, contrary to their own convictions, the Government would undertake this Commission. If it were once appointed, he felt confident that the members of the Stock Exchange would feel it their duty to co-operate with it in order to produce a good result. (Hear, hear.) Although some hon. members had made use of expressions which were calculated to give pain, yet the members of the Stock Exchange would perceive they were not the offenders, but the machinery through which the offenders were able to carry on their operations. The hon. and gallant member for Westminster had let the cat out of the bag, by his amusing story about rubbing the terrier the wrong way in order to get rid of the fleas. This inquisition was to be employed in order to terrify evil-doers. He trusted it would be successful as far as it had that tendency, but at the same time he thought it was an evil precedent, which must give rise in this country, as it had done in others, to the idea that all great trades and professions were in such a state that Parliamentary inquiry was necessary. (Hear.)

The motion for the appointment of a Royal Commission was then agreed to.

HOUSE OF COMMONS.—MONDAY, MARCH 26.

THE STOCK EXCHANGE COMMISSION.

Lord HENRY SOMERSET, who appeared at the Bar as Controller of the Household, brought up the following answer from the Crown to the Address of the House:—

"I have received your Address praying that a Commission may be issued to inquire into the constitution of the London Stock Exchange and the mode of transacting business in that institution, and I have given directions that a Commission shall be issued on this subject in accordance with your request."

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**END OF
TITLE**